No. 93-63

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

L.A. GEAR, INC.,

Petitioner,

v.

THOM McAN SHOE COMPANY, MELVILLE CORPORATION and PAGODA TRADING COMPANY, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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July 12, 1993

QUESTIONS PRESENTED

1. Whether an intentional copier of a nonfunctional distinctive trade dress can escape liability under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), as a matter of law, merely by affixing a label on the substantially similar products?

2. Whether likelihood of confusion is a question of law which should be reviewed *de novo* by a court of appeals without regard to the "clearly erroneous" standard of FED. R. CIV. P. 52(a)?

3. Whether the Court of Appeals for the Federal Circuit exceeded its authority by failing to follow existing precedents in an area of law over which the Federal Circuit does not have exclusive jurisdiction?

STATEMENT PURSUANT TO RULE 29.1

Pursuant to Rule 29.1, L.A. Gear, Inc. states that it has no parent company and no subsidiaries other than wholly-owned subsidiaries.

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PETITION FOR A WRIT OF CERTIORARI TO THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

Petitioner L.A. Gear, Inc. ("L.A. Gear") respectfully prays that a writ of certiorari issue to review the decision of the Court of Appeals for the Federal Circuit entered on February 16, 1993.

OPINIONS BELOW

The decision of the district court granting plaintiff a permanent injunction based on design patent infringement and trade dress infringement was rendered in an opinion dated April 19, 1989, and is reported at 12 U.S.P.Q.2d (BNA) 1001 (S.D.N.Y. 1989). A 35.[1] Two supplementary opinions of the district court, involving damage issues not raised in this petition, were issued on July 25, 1989 and August 8, 1990. A 73, A 78. The judgment of the district court was entered on September 5, 1990. A 82. The decision of the Court of Appeals for the Federal Circuit affirming the district court's holding of design patent infringement, but reversing the district court's holding of trade dress infringement, was issued on February 16, 1993, and is reported at 988 F.2d 1117. A 1.

JURISDICTION

The decision of the Court of Appeals for the Federal Circuit was entered on February 16, 1993. A 1. Both parties' petitions for rehearing were denied by the Federal Circuit on April 13, 1993. A 86. This Court's jurisdiction is invoked under 28 U.S.C. § 1254. The jurisdiction of the district court was invoked under 28 U.S.C. § 1338(1) and under 28 U.S.C. § 1331.

STATUTORY PROVISIONS INVOLVED

This case involves Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and FED. R. CIV. P. 52(a). These provisions are set forth in the Appendix hereto. A 90, A 91.

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[1]References to "A ___" are to the appendix filed with this petition.

STATEMENT OF THE CASE

This case arises as a result of respondents' admitted intentional copying of petitioner's shoe design. In 1987, petitioner, L.A. Gear, designed a line of women's and girls' athletic shoes identified as the L.A. Gear "HOT SHOTS" shoes. A 2. After designing the "HOT SHOTS" line, L.A. Gear spent over five million dollars promoting and advertising these shoes. A 3. As a result, these shoes were an immediate commercial success, with four million pairs sold by February, 1989. *Id.* The Patent and Trademark Office issued a design patent for the "HOT SHOTS" design to L.A. Gear[2] on December 27, 1988. A 2. No shoe had ever contained an overall design configuration similar to that employed by the "HOT SHOTS" shoes. A 38. Both the district court and the Federal Circuit found that the "HOT SHOTS" design was nonfunctional and had acquired secondary meaning. A 7, A 20, A 21.

In early 1988, the respondents Thom McAn Shoe Company ("Thom McAn"), Melville Corporation ("Melville"), Pagoda Trading Company, Inc. ("Pagoda"), and San Shoe Corporation[3] observed the success of L.A. Gear's "HOT SHOTS" design and decided to copy it. A 3. Using the L.A. Gear shoes as models, respondents designed, manufactured and commenced selling shoes virtually identical to the "HOT SHOTS" line. A 3-A 4. "Substantial similarity [between petitioner's shoes and respondents' shoes] is not disputed; indeed, copying is admitted." A 9.

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[2]The patent actually issued to Robert Greenberg, Patricia Quan and Angelo Maccano, all of L.A. Gear. A 46. The design patent was assigned to L.A. Gear. *Id.*

[3]L.A. Gear withdrew all claims against San Shoe before trial.

Respondents sold their shoes in Thom McAn stores with the label BALLOONS and in K mart stores with the labels AEROBIX and MacGREGOR. A 4. The labels on the respondents' shoes were substantially similar to the L.A. Gear label on petitioner's "HOT SHOTS" shoes. These marks were displayed in the same location on the shoes and in the same unique two-toned, split color, color-coordinated style and typeface originated by L.A. Gear. A 4.

On September 16, 1988, petitioner L.A. Gear sued respondents alleging that respondents copied petitioner's "HOT SHOTS" shoe design and, as a result, infringed petitioner's design patent, infringed petitioner's trade dress rights, committed unfair competition and violated the anti-dilution provisions of New York law. A 47.[4]

Following a bench trial, Judge Ward held that Melville and its division Thom McAn were liable for design patent infringement, and that Thom McAn, Melville and Pagoda were liable for trade dress infringement and unfair competition. A 68. The district court found that the respondents had intentionally copied petitioner's design, A 41, A 62; there was evidence of actual customer confusion between "HOT SHOTS" and the pirated shoes, A 63; the "HOT SHOTS" design was a distinctive and strong mark, A 62; the "HOT SHOTS" and pirated shoes were competitively proximate to each other, A 63; the shoes were "strikingly similar" in appearance, A 64; and the buyers of these shoes were not sophisticated or knowledgeable enough to avoid confusion, A 64. As a result, the district court held that customers were likely to be

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[4]The original complaint did not include the patent infringement claims. The complaint was amended after petitioner's design patent issued. The jurisdiction of the district court was invoked under 28 U.S.C. § 1338(1) and under 28 U.S.C. § 1331.

confused, enjoined further infringement, and awarded petitioner damages. A 83-A 85.

On appeal, the Federal Circuit panel unanimously affirmed the finding of patent infringement holding that defendants had committed willful design patent infringement. The Federal Circuit affirmed the district court's findings that "the L.A. Gear shoes and the accused shoes were substantially similar in design, such that the ordinary observer would confuse one with the other" and "the placement of all the major design elements is the same, creating the same distinctive overall look." A 10.

However, a majority of the Federal Circuit panel reversed the finding of trade dress infringement under Section 43(a) of the Lanham Act, stating that the district court clearly erred in finding the purchasers of respondents' shoes were likely to be confused. A 29.[5] The primary basis for the majority's conclusion was the existence of labels on respondents' shoes. The majority held, despite evidence at trial of actual confusion as well as other facts tending to show confusion, A 62-A 64, that the existence of the labels eliminated any possibility of confusion. As a result, the majority's analysis represents a holding that respondents' labels established the absence of confusion as a matter of law irrespective of fact findings supporting a conclusion of likelihood of confusion.

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[5]Judge Mayer dissented from the portion of the majority opinion reversing the district court's findings on likelihood of confusion. The dissent stated that the district court's decision was supported by the detailed fact finding, properly applied the appropriate legal standard, and should have been affirmed. A 30.

REASONS FOR GRANTING THE WRIT

This Petition squarely presents to this Court the special and important issue of whether a label can avoid a finding of likelihood of confusion in Lanham Act cases as a matter of law.

Congress enacted the Lanham Act to provide a uniform system for the protection of consumers from fraudulent and deceptive use of trademarks and trade dress, and to protect those engaged in commerce from unfair competition. 15 U.S.C. § 1127. A determination of the issue of likelihood of confusion lies at the heart of every trademark or trade dress infringement action. *Two Pesos, Inc. v. Taco Cabana, Inc.*, ___ U.S. ___, 112 S. Ct. 2753, 2763 (1992) (Stevens, J., concurring). It is the paramount issue in this and all Lanham Act litigations.

The Federal Circuit decision represents nothing less than a license to steal. It refuses to protect a company with a well-recognized trade dress that had achieved secondary meaning. It allows a pirate to deliberately copy that trade dress; to concededly do so in an attempt to capitalize on its popularity; to create a substantially similar product; to create confusion in the marketplace; and to avoid liability *as a matter of law* merely by replacing petitioner's trademark with its own mark on the knock-off product.[6]

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[6]If followed, this decision would mean that Pepsi might employ the Coca-Cola bottle shape by simply labeling it "Pepsi" instead of "Coke"; "Joe's Lamps" might copy a distinctive Stiffel lamp trade dress by replacing "Stiffel" with "Joe's Lamps"; Ford might sell a copy of the Ferrari Daytona Spider by labeling it as a "Ford"; and Two Pesos would not have infringed Taco Cabana's trade dress because the restaurants had different names.

That decision is contrary to this Court's prior opinions, is at variance with the law of other circuits and threatens to erase the important protections of trade dress law. It will eviscerate the efforts -- through significant marketing and advertising expenditures -- of legitimate marketers to develop recognized trade dress by allowing a pirate virtual freedom to copy an established trade dress, and palm it off as its own. The decision of the Federal Circuit must not be permitted to stand.

I.

THIS CASE RAISES AN IMPORTANT QUESTION AS TO WHETHER AN INTENTIONAL, WILLFUL COPIER CAN ESCAPE LANHAM ACT LIABILITY, AS A MATTER OF LAW, BY SIMPLY AFFIXING A LABEL ON INTENTIONALLY COPIED PRODUCTS

Section 43(a) of the Lanham Act recognizes the expense and risk associated with the development of business reputation and goodwill by protecting against piracy of another's reputation and goodwill. S. Rep. No. 1333, 79th Cong., 2d Sess., 3 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1274. This Court has explained that the national protection of trademarks is desirable to foster competition and maintain quality by securing to the producer the benefits of a good reputation. *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 198 (1985). A decision by this Court on this petition is important because the Federal Circuit's decision has allowed piracy to threaten the fundamental goals of the Lanham Act. The Federal Circuit's decision sends an entirely improper message to the marketplace -- it condones intentional imitation of a distinctive trade dress for the purpose of confusion and free riding, and eliminates Lanham Act liability, as a matter of law, if a pirate places a label on the imitation or copycat product. Such a result departs from decisions of this Court and violates the purpose and goals of the Lanham Act.

A. The Decision of the Federal Circuit Is in Conflict With This Court's Decisions Indicating That Labeling Does Not *Per Se* Eliminate Lanham Act Liability

The Federal Circuit's holding deviates from a recent decision of this Court. In *Two Pesos, Inc.*, 112 S. Ct. at 2761, this Court affirmed the trial court and Fifth Circuit's holding that Two Pesos had infringed Taco Cabana's trade dress under Section 43(a). *Two Pesos* involved Mexican restaurants which utilized a substantially similar trade dress. This Court affirmed a finding of trade dress infringement despite prominent signs on the restaurants indicating their respective names. The Fifth Circuit observed: "The issue is not whether customers can read signs and marks that identify different restaurants, but whether customers assume some affiliation between Taco Cabana and Two Pesos." *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1122 (5th Cir. 1991), *aff'd*, ___ U.S. ___, 112 S. Ct. 2753 (1992).

The Federal Circuit's decision is completely contrary to this analysis. The Federal Circuit ignored findings below on the substantial similarity of the shoes in question and the likely effect of that similarity on consumers. Instead, the Federal Circuit allowed a label -- without regard to the label's effect on avoiding confusion -- to defeat Lanham Act liability as a matter of law. That ruling makes no sense and is contrary to this Court's affirmance in *Two Pesos*. Indeed, under the Federal Circuit decision, the signs and menus in Two Peso's restaurants would, as a matter of law, have eliminated any possible customer confusion and no trade dress infringement would have been found. As a result, this Court should review the evisceration of the Lanham Act occasioned by the Federal Circuit's decision.

B. The Federal Circuit Decision Conflicts with the Decisions of Other Circuits Relating to the Likelihood of Confusion Standard

It is well settled that the Lanham Act establishes liability for selling products which have non-functional, distinctive trade dresses that are likely to confuse consumers. *Two Pesos*, 112 S. Ct. at 2758. Courts have struggled to resolve questions as to whether particular products will confuse consumers and have called the issue a "vexing" problem. *Lois Sportswear, U.S.A. v. Levi Strauss & Co.*, 799 F.2d 867, 872 (2d Cir. 1986). Thus, to assist the district courts, the federal courts of appeals have developed tests to guide the trial courts' resolution of likelihood of confusion issues.

In the Second Circuit,[7] courts have followed the counsel of Judge Friendly in adopting a multifactor balancing test. That test requires the district courts to examine and weigh the following factors to resolve likelihood of confusion issues:

> the strength of [the copied] mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers.

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[7]Second Circuit law should have controlled the Federal Circuit's decision on L.A. Gear's Lanham Act claim. *See infra* at p. 24. Although the Federal Circuit expressed an allegiance to Second Circuit law, it failed to follow controlling Second Circuit precedent. *Id.*

Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495 (2d Cir.), *cert. denied*, 368 U.S. 820 (1961). Since *Polaroid* was decided, virtually all other circuits have adopted the same or a similar multifactor balancing test to determine likelihood of confusion.[8] The enunciation of the factors varies slightly from circuit to circuit, but the approach of these circuits does not waiver. The courts consider and weigh all relevant facts -- no single factor controls the result.[9]

Moreover, other circuits confronted with facts virtually identical to those presented here -- trade dress claims involving

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[8]*See, e.g. Keds Corp. v. Renee Int'l Trading Corp.*, 888 F.2d 215, 222 (1st Cir. 1989); *Merchant & Evans, Inc. v. Roosevelt Bldg. Prods., Co.*, 963 F.2d 628, 637 (3d Cir. 1992); *M. Kramer Mfg. Co. v. Andrews*, 783 F.2d 421, 448 n.24 (4th Cir. 1986); *Sun-Fun Prods., Inc. v. Suntan Research and Dev., Inc.*, 656 F.2d 186, 189 (5th Cir. 1981); *Wynn Oil Co. v. American Way Serv. Corp.*, 943 F.2d 595, 599-600 (6th Cir. 1991); *International Kennel Club v. Mighty Star, Inc.*, 846 F.2d 1079, 1087 (7th Cir. 1988); *SquirtCo v. Seven-Up Co.*, 628 F.2d 1086, 1091 (8th Cir. 1980); *Vision Sports, Inc. v. Melville Corp.*, 888 F.2d 609, 616 (9th Cir. 1989); *Beer Nuts, Inc. v. Clover Club Foods Co.*, 805 F.2d 920, 925 (10th Cir. 1986); *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 972 (11th Cir. 1983).

[9]*See, e.g. Keds Corp.*, 888 F.2d at 222; *Paddington Corp. v. Attiki Importers & Distribs., Inc.*, No. 386, 92-7348, 1993 WL 210564, at *5 (2d Cir. Jun. 17, 1993); *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 297 (3d Cir.), *cert. denied*, ___ U.S. ___, 112 S.Ct. 373 (1991); *Moore Business Forms, Inc. v. Ryu*, 960 F.2d 486, 490 (5th Cir. 1992); *Wynn Oil*, 943 F.2d at 600; *International Kennel Club*, 846 F.2d at 1087; *SquirtCo*, 628 F.2d at 1091; *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1016 (9th Cir. 1985); *Beer Nuts*, 805 F.2d at 925; *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 832 (11th Cir. 1982).

substantially similar but labeled products -- have found that a label alone cannot eliminate confusion.[10] Courts have also found actionable trade dress infringement, despite the presence of labels, in cases (as this one) involving athletic shoes. *Keds Corp. v. Renee Int'l Trading Corp.*, 888 F.2d 215, 222 (1st Cir. 1989); *Reebok Int'l Ltd. v. Sung Hwa Int'l Corp.*, 6 U.S.P.Q.2d 1233, 1235 (S.D.N.Y. 1987).

Despite the clear guidance of this authority -- and the controlling nature of Second Circuit precedents -- the Federal Circuit focused exclusively on defendants' label and its effects. The Federal Circuit held that defendants' label vitiated as a matter of law any possibility of confusion.[11] That important conflict in the circuits should be resolved by this Court.

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[10] *See, e.g. Keds Corp.*, 888 F.2d at 222; *Paddington Corp.*, 1993 WL 210564, at *5; *Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78, 79 (3d Cir. 1982); *M. Kramer*, 783 F.2d at 428, 450; *Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 703 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982); *Sicilia Di R. Biebow & Co. v. Cox and Sales U.S.A., Inc.*, 732 F.2d 417, 423 (5th Cir. 1984); *Levi Strauss & Co. v. Blue Bell Inc.*, 632 F.2d 817, 822 (9th Cir. 1980); *Ambrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1540 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987).

[11] The Federal Circuit's decision is all the more significant here given the fact that *respondents* had the burden of proving the *absence* of likelihood of confusion. A 24, A 62. *See also Sun-Fun Products*, 656 F.2d at 190 ("Indeed, proof that a defendant chose a mark with the intent of copying plaintiff's mark, standing alone, may justify an inference of confusing similarity."). To reverse the district court's finding that respondents had not met their burden of proof on a particular *Polaroid* factor would be, in effect, to find respondents' evidence credible as a matter of law and sufficient as a matter of law. Such a result should not be condoned by this Court.

C. The Creation of an Exception from Lanham Act Liability for Labeled Products Ignores the Fundamental Purposes of the Lanham Act

The fundamental purposes underlying the Lanham Act mandate that a label cannot serve as the sole determining factor in a likelihood of confusion analysis. Congress enacted the Lanham Act to:

> protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.

S. Rep. No. 1333, 79th Cong., 2d Sess., 3 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1274. Thus, the goals of the Lanham Act are to protect both the public and trade dress owners.

The rigid rule adopted by the Federal Circuit frustrates realization of these goals and creates a loophole to trade dress liability that will allow piracy with impunity. The Federal Circuit directed that as a matter of law the existence of labels eliminated the possibility of confusion. The Federal Circuit did so despite evidence of actual confusion between the original and pirate products; the identical placement and styling of the original and pirate marks; and the lack of any district court findings on the secondary meaning of the pirate's mark. That analysis is in direct contradiction to the purpose and goals of the Lanham Act.

The interpretation of the Lanham Act advanced by the Federal Circuit fails to realize the goal of consumer protection

against likely confusion. The decision below requires the public to carefully analyze marks before purchasing an item. This places the weight of consumer protection on consumers, where Congress intended this burden to fall on second comers. The goals of the Lanham Act do not support the Federal Circuit's decision to hinge Lanham Act liability on a high level of consumer scrutiny.[12] Other courts have held that liability results where the "*impression* which the infringing product makes upon the customer is such that he is likely to believe the product is from the same source as the one he knows under the trade-mark." *McGregor-Doniger, Inc. v. Drizzle, Inc.*, 599 F.2d 1126, 1134 (2d Cir. 1979) (citation omitted and emphasis in original). The Federal Circuit's elevation of labeling to a controlling pedestal strays from the goals of the Lanham Act.

Moreover, the Federal Circuit's decision also fails to recognize the Lanham Act's goal of protecting trade dress owners. The circuit court decision sends an entirely improper message to the marketplace. It encourages parties intent on deliberate copying and willful infringement to violate the law and attempt to avoid liability by applying a different label to the pirated product. Trade dress protection is vital to petitioner's business, and other similar businesses, to avoid consumer confusion. Vast amounts are expended on marketing and advertising -- five million dollars in this case -- to establish goodwill in a trade dress. The possibility of design patent infringement has little deterrent effect because (i) the majority of products like petitioner's are not the subject of design patents, and (ii) design patents often issue after a product's popularity wanes. Trade dress protection is therefore critical

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[12]Judge Learned Hand recognized that the test for likelihood of confusion must place the burden on copiers to ensure that their pirated products do not fool even "careless buyers." 1 *McCarthy on Trademarks*, § 8.04 at p. 23 (citing *American Chicle Co. v. Topps Chewing Gum, Inc.*, 208 F.2d 560, 563 (2d Cir. 1953)).

to protect both trade dress owners and the public. This Court should review the Federal Circuit's decision to avoid the crippling effects on trade dress protection threatened by that decision.

II.

THE STANDARD OF REVIEW UTILIZED BY THE FEDERAL CIRCUIT DEPARTS FROM PRECEDENTS OF THIS COURT, THE MAJORITY OF THE CIRCUIT COURTS AND CONGRESSIONAL INTENT

The courts of appeals disagree over the proper standard to review district courts' determinations of likelihood of confusion. Ten circuits afford the district courts' determinations the deference of "clearly erroneous" review[13] while three circuits subject the district courts' findings to *de novo* review.[14] The Federal Circuit reviewed the district

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[13]The First, Third, Fourth, Fifth, Seventh, Eighth, Tenth, Eleventh, and District of Columbia Circuits hold that likelihood of confusion is a question of fact only reversible upon a finding of clear error. *Keds Corp.*, 888 F.2d at 222; *Country Floors, Inc. v. Partnership Composed of Gepner and Ford*, 930 F.2d 1056, 1063 (3d Cir. 1991); *Dayton Progress Corp. v. Lane Punch Corp.*, 917 F.2d 836, 839-40 (4th Cir. 1990); *Moore Business Forms*, 960 F.2d at 489; *Scandia Down*, 772 F.2d at 1428; *SquirtCo*, 628 F.2d at 1091; *Beer Nuts*, 805 F.2d at 925; *Safeway Stores, Inc. v. Safeway Discount Drugs, Inc.*, 675 F.2d 1160, 1163 (11th Cir. 1982); *Reader's Digest Ass'n., Inc. v. Conservative Digest, Inc.*, 821 F.2d 800, 804 (D.C. Cir. 1987). The Ninth Circuit finds likelihood of confusion to be a mixed question of fact and law so dominated by factual determinations that the clearly erroneous standard applies. *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352, 1355 (9th Cir. 1985)(en banc).

(footnote cont'd)

court's finding of likely confusion *de novo*. The view utilized by the Federal Circuit contradicts this Court's precedents, *Pullman-Standard v. Swint*, 456 U.S. 273 (1982), *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982), *Anderson v. City of Bessemer*, 470 U.S. 564 (1985) and *TSC Indus. v. Northway, Inc.*, 426 U.S. 438 (1976), ignores congressional intent, FED. R. CIV. P. 52(a), and departs from the standard adopted by the overwhelming majority of the circuits. Certiorari should therefore issue to resolve the split in the circuits and to bring this aspect of Lanham Act law into conformity with this Court's precedents and congressional intent.

A. The Standard of Review Utilized by the Federal Circuit has been Rejected by a Majority of the Circuits

Ten circuit courts review likelihood of confusion under the clearly erroneous standard. Judge Easterbrook, writing for a unanimous panel of the Seventh Circuit in *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423 (7th Cir. 1985), *cert. denied*, 475 U.S. 1147 (1986), explained the rationale supporting the rule of these circuits as follows:

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[14]The Second and Sixth Circuits consider the issue a mixed question of fact and law. These circuits will only reverse a finding of fact on the factors relating to likely confusion upon clear error, but they subject the ultimate conclusion on likelihood of confusion to *de novo* review. *Paddington Corp.*, 1993 WL 210564, at *5; *Bristol-Myers Squibb Co. v. McNeil - P.P.C., Inc.*, 973 F.2d 1033, 1044 (2d Cir. 1992); *Frish's Restaurants, Inc. v. Elby's Big Boy, Inc.*, 670 F.2d 642, 651 (6th Cir.), *cert. denied*, 459 U.S. 916 (1982). The Federal Circuit views likelihood of confusion to be a question of law and subjects the determination to *de novo* review. *Braun Inc. v. Dynamics Corp. of America*, 975 F.2d 815, 825 (Fed. Cir. 1992).

> [An appellate court] can examine the trademarks as the district court did. But the legal question is not whether the marks look similar to us but whether they look similar to ordinary consumers of bedding products. We have no way to find out how ordinary consumers perceive marks; the district court, on the other hand, heard testimony on that subject and received evidence of actual confusion. It would be little short of arrogation for an appellate court to claim that just because every judge can bring to bear his own view of what is similar and what is not, the appellate judges' view must be the right one.

Scandia Down, 772 F.2d at 1428-29 (footnote omitted).

The Federal Circuit displayed the arrogance that Judge Easterbrook discouraged when it reversed the district court, and held that defendants' labels eliminated the possibility of consumer confusion. The district court found that the *Polaroid* factors mandated a conclusion of likelihood of confusion. A 30 (Mayer, J. dissenting); A 62 - A 64. Nevertheless, the Federal Circuit, without the benefit of hearing testimony and relying on their own unsupported view of the impact of defendants' labels and consumer sophistication, substituted its views for those of the district court. A 29.

As dissenting Judge Mayer observed:

> The district court's findings on the Polaroid factors are amply supported by the evidence in the record, are not clearly erroneous, and all weigh in favor of its determination that a likelihood of confusion exists. It is apparent that the only way to come to any other conclusion is for this court to reweigh the

> evidence that was before the trial court, to substitute its "hunch" for the district court's judgment. This is an impermissible intrusion on the fact finding role of the district court, and a violation of the proper role of an appellate court.

A 31 (Mayer, J. dissenting).[15]

At bottom, the Federal Circuit majority substituted its own experience and beliefs for the fact findings of the district court. Without citation to the record, the majority panel disagreed with the district court's view of consumers as unsophisticated and the impact of respondents' labels. This petition should be granted to curb the trampling on district court findings of fact by the Federal Circuit in areas of its non-exclusive jurisdiction.[16]

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[15] As the Ninth Circuit observed in a recent Lanham Act case: "[t]o be clearly erroneous, a decision must . . . strike us as wrong with the force of a five-week old, unrefrigerated dead fish." *Ocean Garden, Inc. v. Marktrade Co.*, 953 F.2d 500, 502 (9th Cir. 1991) (citations omitted). As the dissent in the instant case observed, the majority of the Federal Circuit panel clearly did not apply this standard.

[16] This Court has previously criticized the Federal Circuit's failure to explicitly apply the clearly erroneous standard set forth in Fed. R. Civ. P. 52(a). *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 811 (1986) ("The Federal Circuit, however, did not mention Rule 52(a), did not expressly apply the clearly erroneous standard to any of the District Court's findings on obviousness, and did not explain why, if it was of that view, Rule 52(a) had no applicability to this issue.").

B. The Standard of Review Adopted by the Federal, Second and Sixth Circuits Disregards Established Precedents of This Court, the Federal Rules of Civil Procedure and Important Federal Policies

Even if likelihood of confusion is a mixed question of fact and law -- which it properly is not -- the standard of review adopted by the Federal, Second and Sixth Circuits deviates from the established precedents of this Court. This Court, in *Pullman*, 456 U.S. at 289 n.19, expressly left open the question of whether the clearly erroneous standard of review applies to mixed questions of fact and law. Since this Court's decision in *Pullman*, FED. R. CIV. P. 52(a) was amended in an attempt to create a uniform standard of appellate review of findings of fact by the district courts. FED. R. CIV. P. 52(a) advisory committee note (1985 amendment). This case provides the opportunity, consistent with Rule 52(a) and with this Court's decisions in *Inwood Labs., Inc. v. Ives Labs., Inc.*, *Anderson v. City of Bessemer* and *TSC Indus. v. Northway, Inc.*, and with the Ninth Circuit's decision in *Levi Strauss & Co. v. Blue Bell, Inc.*, to hold that appellate courts should review mixed questions of fact and law under the clearly erroneous standard.[17]

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[17] Unlike the standard of review utilized by the Federal Circuit, the mixed question of fact and law standard adopted by the Second and Sixth Circuits only conflicts with this Court's precedent to the extent the ultimate conclusion of confusion is reviewed *de novo*. Thus, the Second and Sixth Circuits review the *Polaroid* factors under a clearly erroneous standard and only subject the ultimate balancing of the factors to *de novo* review. *See supra* n.14. Indeed, only the Federal Circuit subjects both the likelihood of confusion of factors and the balancing test to *de novo* review. *Id.*

1. Reviewing Mixed Questions of Fact and Law *De Novo* Violates Precedents of This Court and Is in Conflict with a Decision of Another Court of Appeals

The Ninth Circuit, in an en banc decision, held that while likelihood of confusion is a mixed question of fact and law, it is predominantly one of fact and therefore only subject to review under the clearly erroneous standard. *Levi Strauss*, 778 F.2d at 1355. The court explained:

> Likelihood of confusion is the type of mixed question . . . suited to clearly erroneous review - cases not implicating constitutional rights and those "in which the applicable legal standard provides for a strictly factual test, such as state of mind." *De novo* review of this issue would demand a significant diversion of appellate court resources to a task which more properly belongs to the district judge.

Levi Strauss, 778 F.2d at 1355-56 (citations omitted).

The Ninth Circuit holding is entirely consistent with this Court's precedents. In *TSC Indus.*, the Court held that determinations of materiality in securities law litigations belong in the province of the trier of fact.

> The issue of materiality may be characterized as a mixed question of law and fact, involving as it does the application of a legal standard to a particular set of facts. . . . The determination requires delicate assessments of the inferences a "reasonable shareholder" would draw from a given set of facts and the significance of those inferences to him, and

> these assessments are peculiarly ones for the trier of fact.

TSC Indus., 426 U.S. at 450.

Likelihood of confusion, like materiality, requires a determination of a ficticious person's state of mind. That person here is a future consumer while in the securities context it is the "reasonable shareholder." A determination on likelihood of confusion, like materiality, requires application of fact to a legal standard. Application of the *Polaroid*-type factors to the likelihood of confusion issue requires the balancing and weighing of the subsidiary facts.

> By rejecting the District Court's findings simply because it would have given more weight to evidence of mislabeling than did the trial court, the Court of Appeals clearly erred. Determining the weight and credibility of the evidence is the special province of the trier of fact. . . . An appellate court cannot substitute its interpretation of the evidence for that of the trial court simply because the reviewing court "might give the facts another construction [or] resolve the ambiguities differently . . ."

Inwood, 456 U.S. at 856-58 (quoting *United States v. National Ass'n of Real Estate Bds.*, 339 U.S. 485, 495 (1950)). *See also Anderson*, 470 U.S. at 573-74 ("This standard plainly does not entitle a reviewing court to reverse the finding of the trier of fact simply because it is convinced that it would have decided the case differently"). Like materiality, the determination on likelihood of confusion is particularly suited for the trier of fact, and this Court should grant certiorari to conform the standard of review of findings of likelihood of confusion under Lanham Act law with this Court's precedents in other areas.

2. FED. R. CIV. P. 52(a) Compels Appellate Court Deference to Lower Court Findings of Likely Confusion

FED. R. CIV. P. 52(a) provides "findings of fact, whether based on oral or documentary evidence, shall not be set aside unless clearly erroneous."[18] The Notes of the Advisory Committee on the Rules emphasize that, even where the appellate court is in as good a position as the trial court to make a factual determination, the fact finding function should be left to the district court. The district court's findings relating to customer confusion were based on its examination and evaluation of testimony and documents relevant to the *Polaroid* factors. Under Rule 52(a), those findings and the ultimate conclusion of confusion should not have been disregarded absent clear error. There was no such error.

3. Reviewing Likelihood of Confusion Determinations *De Novo* Disserves Important Federal Policies

Applying the clearly erroneous standard to the issue of likelihood of confusion -- whether defined as a question of fact or a mixed question of fact and law -- promotes the strong federal interests in judicial efficiency and providing litigants with fora having the power to afford them legitimate and authoritative redress.

> The rationale for deference to the original finder of fact is not limited to the superiority of the trial judge's position to make

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[18] FED. R. CIV. P. 52(a) was amended in 1985 to avoid continued confusion and conflicts among the circuits as to the standard of appellate review of findings of fact by the district courts. FED. R. CIV. P. 52(a) advisory committee note (1985 amendment).

> determinations of credibility. The trial judge's major role is the determination of fact, and with experience in fulfilling that role comes expertise. Duplication of the trial judge's efforts in the court of appeals would very likely contribute only negligibly to the accuracy of fact determination at a huge cost in diversion of judicial resources. . . . As the Court has stated in a different context, the trial on the merits should be "the 'main event' . . . rather than a 'tryout on the road.'"

Anderson, 470 U.S. at 574-75 (citation omitted).

The Advisory Committee's Note to the August 1, 1985 amendment to Rule 52(a) also explains how clearly erroneous review of likelihood of confusion determinations serves the important federal policies of (i) judicial efficiency and (ii) ensuring that litigants can legitimately rely on the findings of United States district courts:

> To permit courts of appeals to share more actively in the fact finding function would tend to undermine the legitimacy of the district courts in the eyes of litigants, multiply appeals by encouraging appellate retrial of some factual issues, and needlessly reallocate judicial authority.

FED. R. CIV. P. 52 advisory committee's note (1985 amendment).[19] Indeed, appellate courts have recognized this

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[19]Judge Easterbrook, in *Scandia Down*, 772 F.2d at 1429, explicitly found that this language supported clearly erroneous review of likelihood of confusion determinations.

policy and affirmed decisions regardless of their own impressions of the evidence.

> Likelihood of confusion is a finding of fact. Therefore, we must uphold the trial court's finding of likelihood of confusion unless it is clearly erroneous. The facts were open to dispute, and it is quite possible that we would have reached a different conclusion on the infringement issue if this case were before us de novo. There is adequate support in the record, however, for each of the trial court's findings.

SquirtCo v. Seven-Up Co., 628 F.2d 1086, 1091 (8th Cir. 1980) (citations omitted).

This Court should grant certiorari to mandate adherence to the policies supporting the clearly erroneous standard. The disagreement between the courts of appeals on the proper scope of appellate review of likelihood of confusion perpetuates deviation from these goals. This dissension results in disparate application of both Lanham Act law and Rule 52(a).

De novo review of likelihood of confusion contradicts this Court's precedents. Moreover, this case provides a prime example of how *de novo* review of likelihood of confusion determinations emasculates district court authority and results in uncertainty among litigants, needless appeals, and improvident use of judicial resources. This Court's guidance is necessary to resolve the split in the circuits and to insure that the Lanham Act law serves its legislative purposes.

III.

THE FEDERAL CIRCUIT FAILED TO FOLLOW ACTS OF CONGRESS AND ITS OWN PRECEDENT WHICH DIRECTED IT TO APPLY SECOND CIRCUIT LAW AND THEREBY EXCEEDED ITS JURISDICTION

The Federal Circuit failed to apply *Polaroid* despite its clear applicability to this case as the controlling law of the Second Circuit. The *Polaroid* test was not cited in the opinion and the majority of the factors were not addressed. Instead, the Federal Circuit focused on the evidence it deemed appropriate to decide likely confusion and elevated labeling to a dispositive position superior to the other *Polaroid* factors. Thus, the Federal Circuit overturned the district court's fact finding based on its own test rather than Second Circuit law. By failing to apply Second Circuit law, the Federal Circuit exceeded its jurisdiction and sanctioned risk-free intentional copying by willful infringers, despite evidence of actual customer confusion.[20]

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[20]The Federal Circuit also failed to properly apply Second Circuit law relating to the appropriate standard of review. The Federal Circuit correctly noted that the Second Circuit reviews likelihood of confusion as a mixed question of fact and law. *See supra* at n.14. The Second Circuit reviews the district courts' findings on the individual *Polaroid* factors under a clearly erroneous standard, but reviews the ultimate question of likelihood of confusion *de novo*. *Id*. Contrary to this precedent, the Federal Circuit reversed fact findings on the effect of labeling and on consumer sophistication without a clearly erroneous finding -- which is not surprising since those findings were not clearly erroneous. Thus, the Federal Circuit exceeded its jurisdiction by failing to follow Second Circuit precedents. *See Paddington Corp.*, 1993 WL 210564, at *5.

Pursuant to 28 U.S.C. § 1295, the Federal Circuit has exclusive jurisdiction over patent appeals. However, 28 U.S.C. § 1295 expressly directs that the Federal Circuit does *not* have exclusive jurisdiction to decide trademark appeals.[21] When addressing issues of trade dress infringement and unfair competition, over which the Federal Circuit does not have exclusive appellate jurisdiction, the Federal Circuit itself has held that it should be bound by the law of the circuit in which the district court sits. *Cicena Ltd. v. Columbia Telecom. Group*, 900 F.2d 1546, 1548 (Fed. Cir. 1990). While the Federal Circuit gave lip service to its obligation to follow Second Circuit law, it completely failed to do so.

One of the primary purposes for the creation of the Federal Circuit was the promotion of uniformity. S. Rep. No. 97-275, 97 Cong., 2d Sess., 4 (1982), *reprinted in* 1982 U.S.C.C.A.N. 11, 14 ("the creation of the Court of Appeals for the Federal Circuit provides such a forum for appeals from throughout the country in areas of the law where Congress determines that there is special need for national uniformity"). However, under the decision below, the legal standard applied to a Lanham Act may vary if the claim is pendent to a patent claim. In other words, the Second Circuit will follow *Polaroid* if the case is properly appealed to the Second Circuit; but the Federal Circuit will *not* follow *Polaroid* if the case is properly appealed to it.

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[21] Even though the Federal Circuit does not have exclusive jurisdiction over Lanham Act claims, it is presented with a substantial number of Lanham Act cases. Lanham Act claims are often pendent to patent claims over which the Federal Circuit has exclusive jurisdiction and Lanham Act claims can be appealed to the Federal Circuit after resolution by the Trademark Trial and Appeal Board. In addition, the fact that the decision below is published may result in other courts following the Federal Circuit's logic.

The Federal Circuit's decision encourages blatant forum shopping. Litigants can merely join their Lanham Act claims to Patent Act claims to avoid Lanham Act precedents in the litigant's local circuit. *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1438 (Fed. Cir. 1984). Congress expressly intended to avoid such a result when it created the Federal Circuit:

> The Committee is concerned that the exclusive jurisdiction over patent claims of the new Federal Circuit not be manipulated. This measure is intended to alleviate the serious problems of forums [sic] shopping among the regional courts of appeals on patent claims by investing exclusive jurisdiction in one court of appeals. *It is not intended to create forum shopping opportunities between the Federal Circuit and the regional courts of appeals on other claims.*

S. Rep. No. 97-275, 97th Cong., 2d Sess., 19-20 (1982), *reprinted in* 1982 U.S.C.C.A.N. 11, 29-30 (emphasis added). Furthermore, as the Federal Circuit itself recognized:

> [D]istrict judges [ ] should not be required to decide cases in this fashion. For instance, practitioners and district judges in the Seventh Circuit should not be saddled with two different sets of requirements regarding attorney disqualification, one for cases appealed to the Seventh Circuit and one for cases appealed to this court.

Panduit Corp. v. All States Plastic Mfg. Co., 744 F.2d 1564, 1574 (Fed. Cir. 1984).

This Court should not allow the Federal Circuit to disregard such important concerns. Second Circuit precedent

has refused to allow labeling to be raised to a controlling pedestal to avoid likelihood of confusion, without a balancing of the other factors relating to confusion. *Paddington Corp.*, 1993 WL 210564, at *5. In that event, no error would have been found. The Second Circuit would have analyzed Judge Ward's findings under *Polaroid* and would have subjected the findings on the individual *Polaroid* factors to a clearly erroneous standard. *Id.* A writ of certiorari is necessary to direct the scope of the Federal Circuit's jurisdiction when analyzing cases over which it lacks exclusive jurisdiction.

CONCLUSION

For all of the foregoing reasons, petitioner respectfully requests that the Court issue a writ of certiorari.

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July 12, 1993

APPENDIX

United States Court of Appeals, Federal Circuit

L.A. GEAR, INC., Plaintiff/Cross-Appellant,

v.

THOM McAN SHOE COMPANY and Melville Corporation and Pagoda Trading Company, Inc., Defendants-Appellants.

Nos. 89-1488, 89-1497, 91-1104 and 91-1105.

Feb. 16, 1993.

Rehearing Denied; Suggestion for Rehearing In Banc

Declined April 13, 1993.

Robert A. Horowitz, Law Office of Kelley, Drye & Warren, Stamford, CT, argued, for plaintiff, cross-appellant, L.A. Gear, Inc. With him on the brief was Mark S. Gregory.

Doreen L. Costa, Law Office of Brumbaugh, Graves, Donohue & Raymond New York City, argued, for defendants-appellants, Thom McAn Shoe Co. and Melville Corp. With her on the brief were Joseph D. Garon and Marina T. Larson.

William M. Borchard, Law Office of Cowan, Liebowitz & Latman, P.C., New York City, argued, for defendant-appellant, Pagoda Trading Co., Inc. Of counsel was Alasdair J. McMullan.

Before NEWMAN, MAYER and PLAGER, Circuit Judges.

PAULINE NEWMAN, Circuit Judge.

Thom McAn Shoe Company, the Melville Corporation, and Pagoda Trading Company, Inc. (together "Appellants") appeal the decision of the United States District Court for the Southern District of New York,[1] holding Melville and its division Thom McAn (together "Melville") liable for design patent infringement, and holding Appellants liable for unfair competition based on trade dress infringement in terms of § 43(a) of the Lanham Act and the New York State unfair competition law. The district court enjoined further infringement and awarded damages under the Lanham Act. The court declined to award enhanced damages or attorney fees.

We affirm the ruling of liability for patent infringement as to four shoe models, and reverse the ruling that infringement was not willful. We reverse the ruling of liability under § 43(a) of the Lanham Act as to six shoe models.

Background

In 1987 L.A. Gear designed a line of women's and girls' athletic shoes identified as the L.A. Gear's "Hot Shots" shoes. United States Design Patent No. 299,081 was granted on December 27, 1988 ("the '081 patent"). Figure 4 of the patent is shown:

[diagram in original, see Exhibit 1, page A32]

Although color is not part of the patented design, the colors used on these shoes and their placement are part of the trade

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1 *L.A. Gear, Inc. v. Thom McAn Shoe Company*, No. 88 Civ. 6444, 1989 WL 282850 (S.D.N.Y. September 5, 1990) (Judgment); (July 25, 1989) (Order); (April 19, 1989) (Judgment).

dress for which L.A. Gear claims protection from unfair competition.

In the summer and fall of 1987 L.A. Gear exhibited the Hot Shots line of shoes to retailers at trade shows, and announced that these shoes had been selected as L.A. Gear's "hero" or featured shoe line, on which major promotion and advertising would be focused for the ensuing year. There was evidence at trial that L.A. Gear concentrated over seventy percent of its advertising expenditures on these shoes, including television commercials, billboards, and advertisements in magazines and newspapers, at a cost of over five million dollars in 1988. The district court found that the advertising was in color and prominently featured the design of the shoe. A L.A. Gear Hot Shots shoe is pictured:

[diagram in original, see Exhibit 2, page A33]

This line of shoes was a commercial success, with four million pairs sold by February, 1989. The sales volume was significantly higher than for any of L.A. Gear's other styles. The shoes were sold primarily in department stores, sporting goods stores, and athletic shoe stores, at a retail price ranging from $35 to $60. L.A. Gear testified that it had a policy against sale of its shoes in discount stores.

Melville Corporation sells shoes in discount stores, through its divisions Thom McAn and Meldisco. Thom McAn sells shoes in its own stores, and Meldisco sells shoes in K Mart stores. The Pagoda Trading Company arranges for the manufacture of shoes in the Far East and their importation into the United States.

The district court found that in early 1988 the Appellants, observing the success of L.A. Gear's Hot Shots design, decided to copy it. Designers employed by the Appellants used the L.A. Gear shoes as models for the shoes accused of infringement: a women's high top shoe sold in

Thom McAn stores with the trademark BALLOONS; high and low top women's and girl's models sold in K Mart stores with the trademark AEROBIX; and a women's low top shoe sold in K Mart stores with the trademark MacGREGOR. (Additional models carrying the marks JUST KIDDING and SHOOTERS were stated to have been discovered after trial and are not included in our decision.) All of the trademarks are displayed in the same location on the shoe, in the same color-coordinated style, as the L.A. GEAR trademark. Acknowledging the presence of these trademarks, the district court found that six models of Appellants' shoes were "strikingly similar" to L.A. Gear's Hot Shots design, and that the conditions of unfair competition were met. These and related issues are raised on this appeal.

I.

THE DESIGN PATENT

35 U.S.C. § 171 provides that a patent may be obtained for the ornamental design of an article of manufacture.

> **35 U.S.C. § 171.** Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor, subject to the conditions and requirements of this title. . . .

A patented design is ordinarily claimed "as shown", that is, by its drawing.

> **37 C.F.R. § 1.153(a).** The title of the design must designate the particular article. No description, other than a reference to the drawing, is ordinarily required. The claim shall be in formal terms to the ornamental design for the article (specifying name) as shown, or as shown and described. More than one claim is neither required nor permitted.

L.A. Gear charged only Melville with patent infringement, since Pagoda had ceased importation before the issuance of the '081 patent. Melville was held liable for patent infringement with respect to four models of shoes: a women's high top BALLOONS shoe (model no. 78191); a women's high top AEROBIX shoe (model no. 78505); and two girls' high top AEROBIX shoes (models no. 71878 and 76878).

Melville raised defenses of patent invalidity and non-infringement, on the following premises:

Functionality

Melville asserted at trial, and argues on appeal, that the design of the '081 patent is "functional" and that the patent is therefore invalid. Invalidity due to functionality is an affirmative defense to a claim of infringement of a design patent, and must be proved by the party asserting the defense. Applying the presumption of validity, 35 U.S.C. § 282, invalidity of a design patent must be established by clear and convincing evidence.

A design patent is directed to the appearance of an article of manufacture. An article of manufacture necessarily serves a utilitarian purpose, and the design of a useful article is deemed to be functional when the appearance of the claimed design is "dictated by" the use or purpose of the article. *In re Carletti*, 328 F.2d 1020, 1022, 140 USPQ 653, 654 (CCPA 1964); *Power Controls Corp. v. Hybrinetics. Inc.*, 806 F.2d 234, 238, 231 USPQ 774, 777 (Fed. Cir. 1986) (patented design must be primarily ornamental). If the particular design is essential to the use of the article, it can not be the subject of a design patent.

Melville argues that each element comprising the '081 design has a utilitarian purpose: that is, the delta wing provides support for the foot and reinforces the shoelace eyelets; the mesh on the side of the shoe also provides support;

the moustache at the back of the shoe provides cushioning for the Achilles tendon and reinforcement for the rear of the shoe; and the position of each of these elements on the shoe is due to its function. However, the utility of each of the various elements that comprise the design is not the relevant inquiry with respect to a design patent. In determining whether a design is primarily functional or primarily ornamental the claimed design is viewed in its entirety, for the ultimate question is not the functional or decorative aspect of each separate feature, but the overall appearance of the article, in determining whether the claimed design is dictated by the utilitarian purpose of the article. *Lee v. Dayton-Hudson Corp.*, 838 F.2d 1186, 1189, 5 USPQ2d 1625, 1267 (Fed.Cir.1988). *See Gorham Co. v. White*, 81 U.S. (14 Wall.) 511, 530, 20 L.Ed. 731 (1872).

That elements of the '081 design, such as the delta wing or the side mesh, also provide support for the foot does not mean that the specific design of each element, and the combination of these elements into the patented design, is dictated by primarily functional considerations. The elements of the design may indeed serve a utilitarian purpose, but it is the ornamental aspect that is the basis of the design patent. *Carletti*, 328 F.2d at 1022, 140 USPQ at 654.

The district court remarked on the existence of a myriad of athletic shoe designs in which each of the functions identified by Melville as performed by the '081 design elements was achieved in a way other than by the design of the '081 patent. When there are several ways to achieve the function of an article of manufacture, the design of the article is more likely to serve a primarily ornamental purpose. *See Avia Group International, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557, 1563, 7 USPQ2d 1548, 1553 (Fed. Cir. 1988). It was not disputed that there were other ways of designing athletic shoes to perform the functions of the elements of the '081 design. In today's marketplace, the primacy of

appearance in the design of shoes can not be ignored when analyzing functionality.

The district court found that the '081 design was primarily ornamental, and that the patent was not invalid on the ground of functionality. Clear error has not been shown in this ruling, which is affirmed.

Obviousness

A patented design must meet the substantive criteria of patentability, including non-obviousness in accordance with the law of 35 U.S.C. § 103. *See* 35 U.S.C. § 171 ("The provisions of this title relating to patents for inventions shall apply to patents for designs, except as otherwise provided.").

In applying the law of § 103 to the particular facts pertinent to the patented design, obviousness *vel non* is reviewed from the viewpoint of a designer of ordinary skill or capability in the field to which the design pertains. *In re Nalbandian*, 661 F.2d 1214, 1216, 211 USPQ 782, 784 (CCPA 1981). As with utility patents, obviousness is not determined as if the designer had hindsight knowledge of the patented design.

When the patented design is a combination of selected elements in the prior art, a holding of obviousness requires that there be some teaching or suggestion whereby it would have been obvious to a designer of ordinary skill to make the particular selection and combination made by the patentee. *In re Cho*, 813 F.2d 378, 382, 1 USPQ2d 1662, 1663-64 (Fed. Cir. 1987). The first step in the analysis, when the subject is design, is whether there is "a reference to something in existence, the design characteristics of which are basically the same as the claimed design, in order to support a holding of obviousness". *In re Rosen*, 673 F.2d 388, 391, 213 USPQ 347, 350 (CCPA 1982); *In re Jennings*, 182 F.2d 207, 208, 86 USPQ 68, 70 (CCPA 1950). Thus not only the individual

elements, but the ornamental quality of the combination must be suggested in the prior art. *Rosen, id.* at 390, 213 USPQ at 349.

Melville offered twenty-two references that were asserted to show or suggest various features of the '081 design, and argues that the '081 design is readily reconstructed from elements found in the prior art. The district court found that all of the elements of the design of the '081 patent were known, but that these particular elements had not previously been combined in a single shoe design. A reconstruction of known elements does not invalidate a design patent, absent some basis whereby a designer of ordinary skill would be led to create this particular design. The district court concluded that there was no teaching or suggestion in the prior art of the appearance of the claimed design as a visual whole. We discern no error in this conclusion or the premises on which it rests. The undisputed commercial success of the patented design, and Appellants' copying thereof, are also relevant to analysis of the obviousness of a design. *Rosen*, 673 F.2d at 391 n.6, 213 USPQ at 350 n.6.

The district court's holding that the '081 design patent is not invalid under 35 U.S.C. § 103 is affirmed.

Infringement

In 35 U.S.C. § 289 infringement is defined as unauthorized manufacture or sale of "the patented design, or any colorable imitation thereof". Design patent infringement is a question of fact, to be proven by a preponderance of the evidence. *Braun Inc. v. Dynamics Corp. of America*, 975 F.2d 815, 819, 24 USPQ2d 1121, 1124 (Fed. Cir. 1992).

Design patent infringement requires a showing that the accused design is substantially the same as the claimed design. The criterion is deception of the ordinary observer, such that one design would be confused with the other:

> We hold, therefore, that if, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

Gorham v. White, 81 U.S. (14 Wall.) at 528, 20 L.Ed. 731; *Lee v. Dayton-Hudson*, 838 F.2d at 1187, 5 USPQ2d at 1626.

In conducting such analysis the patented design is viewed in its entirety, as it is claimed. As for other patented inventions, reference is made to the prior art and the prosecution history in order to give appropriate weight to the factors that contributed to patentability. *See Winner International Corp. v. Wolo Manufacturing Corp.*, 905 F.2d 375, 376, 15 USPQ2d 1076, 1077 (Fed. Cir. 1990). While the accused design must appropriate the novelty that distinguished the patented design from the prior art, *see Litton Systems, Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1444, 221 USPQ 97, 109 (Fed. Cir. 1984), the ultimate question requires determining whether "the effect of the whole design [is] substantially the same". *Gorham v. White*, 81 U.S. at 530, 20 L.Ed. 731. *See Shelcore, Inc. v. Durham Industries, Inc.*, 745 F.2d 621, 628 n.16, 223 USPQ 584, 590 n.17 (Fed. Cir. 1984) (the requirements of *Gorham v. White* and *Litton v. Whirlpool* are conjunctive).

The district court found that the designs of four models of Melville's accused shoes were "almost a direct copy" of the '081 design. Pictured is the BALLOONS model no. 78191:

[diagram in original, see Exhibit 3, page A34]

Substantial similarity is not disputed; indeed, copying is admitted. However, Melville complains that the district court's treatment of the issue of patent infringement was "cursory", in that the court referred, in the part of its opinion

relating to patent infringement, to its findings on likelihood of confusion relative to the trade dress issue.

In discussing trade dress, the district court had found that the L.A. Gear shoes and the accused shoes were substantially similar in design, such that the ordinary observer would confuse one with the other. Although design patent analysis requires comparison of the claimed design with the accused articles, Melville has not argued that the patent drawing differs from the embodiment in the L.A. Gear shoe, and has offered no reason why the finding of substantial similarity between the actual shoes was not applicable to the infringement analysis. When the patented design and the design of the article sold by the patentee are substantially the same, it is not error to compare the patentee's and the accused articles directly, *Lee v. Dayton-Hudson Corp.*, 838 F.2d at 1189, 5 USPQ2d at 1627; indeed, such comparison may facilitate application of the *Gorham* criterion of whether an ordinary purchaser would be deceived into thinking that one were the other. It was in this context that the district court analyzed likelihood of confusion. No methodological error has been shown in this analysis.

Design patent infringement relates solely to the patented design, and does not require proof of unfair competition in the marketplace, *see Unette Corp. v. Unit Pack Co.*, 785 F.2d 1026, 1029, 228 USPQ 933, 934 (Fed. Cir. 1986), or allow of avoidance of infringement by labeling. The district court did not confuse the criteria relevant to these causes of action. Although Melville argues specific differences in features of the four models that were found to infringe the '081 patent, the district court found that "the placement of all the major design elements is the same, creating the same distinctive overall look", and recognized that the novelty resided in the overall appearance of the combination. The court found, in the terms of *Gorham v. White*, that the four infringing models were confusingly similar to the patented design, as viewed by an ordinary observer.

Reversible error has not been shown. The district court's holding of design patent infringement is affirmed.

Willfulness of Infringement

The district court concluded that Melville's patent infringement was not willful, and denied L.A. Gear's request for enhanced damages and attorney fees. Willfulness of infringement is a question of fact, and the district court's finding thereon shall be sustained unless it is clearly in error. *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1126, 2 USPQ2d 1915, 1919 (Fed. Cir. 1987); *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628, 225 USPQ 634, 644 (Fed. Cir.), *cert. dismissed*, 474 U.S. 976, 106 S.Ct. 340, 88 L.Ed.2d 326 (1985).

Melville relied on its counsel's obligations under Rule 11[2] to support its assertion that it had a good faith belief in the invalidity and unenforceability of the '081 patent. L.A. Gear points out, correctly, that a defensive pleading of invalidity or unenforceability may pass muster under Rule 11, yet not provide adequate defense to the charge of willful infringement. Indeed, in this case the pled defense of unenforceability was not pursued at trial; and the only ground asserted for patent invalidity (*i.e.*, functionality) did not present a close question of fact or law.

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2 **Fed.R.Civ.P.11.**

Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record. . . . The signature of an attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion or other paper; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose. . . .

Melville introduced no evidence of whether it obtained an opinion of counsel that the '081 patent was not valid or not infringed, or any other support for a good faith belief that it was entitled to perform the infringing acts. Although a party to litigation may indeed withhold disclosure of the advice given by its counsel, as a privileged communication, it will not be presumed that such withheld advice was favorable to the party's position. We have held that the assertion of privilege with respect to infringement and validity opinions of counsel may support the drawing of adverse inferences. *See Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565, 1580, 230 USPQ 81, 91 (Fed. Cir.), *modified in part*, 231 USPQ 160 (Fed. Cir. 1986), *cert. denied*, 479 U.S. 1034, 107 S.Ct. 882, 93 L.Ed.2d 836 (1987) (the accused infringer's silence as to the existence of an opinion of counsel contributed, with other factors, to the ruling that infringement was willful).

Melville presented no evidence to counteract the evidence of copying of the patented design. Indeed, Melville admitted copying, offering as its only justification the proposition that copying is prevalent in the fashion industry, an issue not relevant to patent infringement. The '081 patent issued several months after the complaint for unfair competition under § 43(a) was filed by L.A. Gear. L.A. Gear warned Melville of the impending issuance of the patent. In *Avia Group*, 853 F.2d at 1566-67, 7 USPQ2d at 1555-56, the defendant was given similar warning of impending patent issuance, yet continued the accused activities after patent issuance. *See Pacific Furniture Mfg. Co. v. Preview Furniture Corp.*, 800 F.2d 1111, 1114-15 n. 9, 231 USPQ 67, 69 n.9 (Fed. Cir. 1986) (fact that infringement started before patent issued does not bar award of increased damages). The law imposes an affirmative duty of due care to avoid infringement of the known patent rights of another. *See Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90, 219 USPQ 569, 576-77 (Fed. Cir. 1983).

In *Avia Group*, as here, the accused infringer presented no probative evidence of a good faith belief in non-infringement. As in *Avia Group*, Melville's deliberate copying was strong evidence of willful infringement, without any exculpatory evidence to balance the weight. Indeed, the factual situations are not distinguishable on the issue of willfulness. Principles of *stare decisis* require similar rulings on similar facts, and thus it was error to fail to follow *Avia Group*.

The district court's ruling that Melville's infringement was not willful is reversed.

Damages

The district court had assessed damages based on trade dress infringement, and did not assess separate damages for patent infringement. In view of our holding that § 43(a) has not been violated, *see* Part II, *infra*, on remand the district court shall assess damages based on patent infringement.

The district court had measured damages in accordance with § 43(a) of the Lanham Act which, like § 289 of the Patent Act,[3] provides for recovery of the infringer's total profits. To

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[3] **35 U.S.C. § 289.**

Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.

Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement.

facilitate that determination on remand, we have reviewed L.A. Gear's objections to the district court's accounting methodology. The question is whether Melville was entitled to deduct, in calculating its net profit, certain payments made by Melville to K Mart. The court held that since K Mart was not a party to this litigation, Melville could deduct the sums that it paid to K Mart as K Mart's profit on the sale of the infringing shoes.

L.A. Gear states, without contradiction, that it did not join K Mart as a party to this suit because of requests and representations from both Melville and K Mart, stating that Melville could provide complete recompense to L.A. Gear. Melville stated that it was obligated to indemnify K Mart for patent and trademark infringement and that it would serve no legitimate purpose to join K Mart as a party. K Mart threatened to seek Rule 11 sanctions should L.A. Gear join K Mart despite these assurances that Melville could provide any and all relief. L.A. Gear did not join K Mart as a party. Melville now asserts that because K Mart was not a party, L.A. Gear can not recover any sums attributed to K Mart's profits, and therefore that Melville can deduct from its gross profits the sums it paid to K Mart.

The representations here involved were made by lawyers in the context of litigation. They are not asserted to be puffery or posturing or negotiating ploys, or that they were not expected to be believed. The record contains relevant correspondence, including the indemnification contract between Melville and K Mart. Actions induced by attorney representations can not be disclaimed by their instigator. Reliance by L.A. Gear was sought and obtained, and was not unreasonable. Having induced reliance, Melville can not now renounce the consequences.

The only issue raised with respect to the measure of damages due to K Mart's activities pertains to the deductibility of the amounts that Melville paid to K Mart. These amounts

shall not be deducted by Melville in its accounting of profits, if recovery is calculated under 35 U.S.C. § 289.

L.A. Gear's choice of remedy for infringement, and the amount of recovery, shall be determined upon remand.

Attorney Fees

Attorney fees in patent cases may be awarded in "exceptional cases". 35 U.S.C. § 285. Willfulness of infringement is a sufficient basis for finding a case exceptional, *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 201, 228 USPQ 367, 369, (Fed. Cir. 1986), although not every exceptional case warrants the award of attorney fees. *Id.*

Whether a case is exceptional is a factual determination, and is reviewed for clear error. *See Reactive Metals and Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1582-83, 226 USPQ 821, 824 (Fed. Cir. 1985). Although the district court found that this case was not exceptional, our determination that Melville's patent infringement was willful has changed the factual premises.

The trial judge is in the best position to weigh the factors "that may contribute to a fair allocation of the burdens of litigation as between winner and loser", *S.C. Johnson*, 781 F.2d at 201, 228 USPQ at 369, in view of the entirety of the litigation circumstances. We remand to the district court for redetermination of the issue of attorney fees.

II

UNFAIR COMPETITION-

TRADE DRESS

The issue was whether Appellants had violated § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a),[4] based on the appearance trade dress of certain models of Appellants shoes: the four models that were found to have infringed the '081 patent, and two additional models, *viz.* a women's low top AEROBIX shoe model no. 79404 and a women's low top MacGREGOR shoe model no. 16816. The district court held that these six shoe models misappropriated the trade dress of L.A. Gear's Hot Shots shoes. The court found that despite the relatively short time that the L.A. Gear shoes had been on the market, the Hot Shots design had acquired secondary meaning in that consumers had come to recognize the design as the product of L.A. Gear. The court held that there was a likelihood that consumers would be confused as to the source of the Appellants' shoes or as to the relationship between the sources of the shoes.

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4 **15 U.S.C. § 1125. False designations of origin and false descriptions forbidden**

(a) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which-

(1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(2) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Section 43(a) as amended by Trademark Law Revision Act, Pub.L. 100-667, 102 Stat. 3935 (1988).

The protection of trade dress is of common law origin. It is based upon recognition that the packaging of goods can serve as an indicator of source, and that similar packaging may confuse, mislead, or deceive the consumer. *See generally* 1 T. McCarthy, *Trademarks and Unfair Competition*, § 8.1 (2d ed. 1984). The assorted legal theories that have arisen in the development of the law of trade dress have been summarized as follows:

> Attempts to incorporate protection for a product's overall design or appearance into § 43(a) have come under a variety of guises. Some courts have found an unregistered trademark in the product's trade dress, overall design, combination of features, or appearance. Others simply find that copying a product's overall trade dress or design is unfair competition. Still others have found such copying to be trade dress infringement without attempting to link it to trademark infringement or designating it a sub-category of unfair competition.

American Greetings Corp. v. Dan-Dee Imports, Inc., 807 F.2d 1136, 1140 n.2, 1 USPQ2d 1001, 1004 n.2 (2d Cir. 1986) (citations omitted).

Trade dress protection is not limited to the exterior packaging of a product, for "the design of a product itself may function as its packaging, serving to distinguish it from other products, and hence be protectable trade dress under § 43(a)". *Wallace International Silversmiths, Inc. v. Godinger Silver Art Co.*, 916 F.2d 76, 78-79, 16 USPQ2d 1555, 1557 (2d Cir. 1990),[5] *cert. denied*, __ U.S. ___, 111

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5 Since unfair competition issues are not within the Federal Circuit's exclusive jurisdiction, we apply the discernible precedent of the regional circuit, *see Cicena, Ltd. v. Columbia Telecommunications Group*, 900 F.2d 1546, 1548, 14 USPQ2d 1401, 1403 (Fed. Cir. 1990), in order to avoid placing an

Footnote continued on next page

S.Ct. 1622, 113 L.Ed.2d 720 (1991). In *Stormy Clime, Ltd. v. Progroup, Inc.*, 809 F.2d 971, 974, 1 USPQ2d 2026, 2028 (2d Cir. 1987), the court explained that trade dress of a product "involves the total image of a product and may include features such as size, shape, color or color combinations, texture, [or] graphics" (quoting *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983)). Trade dress is thus viewed as the overall combination and arrangement of design elements into the total image by which the product is perceived by the consuming public.

The protection of trade dress has been liberally construed for, as discussed in *LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 77, 225 USPQ 654, 658 (2d Cir. 1985), "[t]rade dress associated with a product that has accumulated goodwill ... will almost always be 'an important ingredient' in the 'salability' of the product". The Second Circuit has recognized that trade dress, while partaking of the attributes of a trademark, is particularly concerned with product presentation: its "total image".

Appellants argue that L.A. Gear's Hot Shots shoe design is not protectable under § 43(a) because it is functional, because it lacks secondary meaning, and because the labeling on the shoes makes confusion unlikely.

Functionality

Appellants state that the design of L.A. Gear's Hot Shots shoes is utilitarian and not ornamental, and also that the design, if deemed ornamental, is "aesthetically functional".

Footnote continued from previous page

unnecessary burden on trial courts or creating an opportunity for appellate forum shopping by generating a separate body of substantive or procedural law.

Functionality of trade dress must be proved by the party asserting the defense. *LeSportsac*, 754 F.2d at 76, 225 USPQ at 657.

Applying Second Circuit law as we perceive it in this evolving area, an action for unfair competition under § 43(a) will not lie if the product design is essential to the use of the device, and not primarily directed to its appearance. *Stormy Clime*, 809 F.2d at 977, 1 USPQ2d at 2030. *See Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850 n.10, 102 S.Ct. 2182, 2187 n.10, 72 L.Ed. 2d 606, 613 n.10, 214 USPQ 1, 4 n.10 (1982) (defining functionality as essential to the use or purpose of the article or affecting its cost or quality). If products having the same utility can not be made without duplicating the design, the product design is deemed essential to the function and is not protectable as a matter of trade dress. The court explained in *Warner Bros. Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 331 (2d Cir. 1983) that "[a] design feature of a particular article is 'essential' only if the feature is dictated by the functions to be performed; a feature that merely accommodates a useful function is not enough". *See LeSportsac*, 754 F.2d at 77, 225 USPQ at 658.

The Second Circuit has narrowed or rejected, depending on the particular case, the theory of aesthetic functionality as stated in *Pagliero v. Wallace China Co.*, 198 F.2d 339, 95 USPQ 45 (9th Cir. 1952). In *Pagliero* the Ninth Circuit explained that an ornamental design may be excluded from the protection of § 43(a) when the design is "an important ingredient in the commercial success" of the product. *Id.* at 343, 95 USPQ at 48. The *Pagliero* court remarked that an attractive design "satisfies a demand for the aesthetic", and that free competition thus requires imitation. *Id.* at 343-44, 95 USPQ at 49. The Second Circuit explained in *Wallace International* that "the *Pagliero* test discourages both originators and later competitors from developing pleasing designs". 916 F.2d at 80, 16 USPQ2d at 1558. The court stated, however, that to merit trade dress protection the

ornamental feature must not hinder competition by limiting the range of alternative designs, citing with approval the Third Restatement of the Law, Unfair Competition (Tentative Draft No. 2), Ch. 3, § 17(c) at 126-27 (1990). *Wallace International*, 916 F.2d at 81, 16 USPQ2d at 1559.

The district court observed that many samples of athletic shoes were in evidence that did not embody the Hot Shots design, including athletic shoes presenting the same general fashion impression. It was apparent that athletic shoes could be made without the Hot Shots dress. The court rejected the argument that copying was necessary in order to compete effectively because the Hot Shots shoes were the latest fad. We discern no clear error in the district court's ruling that L.A. Gear's design of the Hot Shots met the criteria of non-functionality.

Secondary Meaning

Trade dress for which protection is sought under § 43(a) must serve as an indication of origin or source, either by virtue of inherent distinctiveness, or by secondary meaning acquired through use. *See Two Pesos, Inc. v. Taco Cabana, Inc.*, __ U.S. ___, ___, 112 S.Ct. 2753, 2761, 120 L.Ed.2d 615, 628-29, 23 USPQ2d 1081, 1086 (1992) (when a trade dress is inherently distinctive, a showing of secondary meaning is not required in order to protect that dress under § 43(a)). The district court found that L.A. Gear's Hot Shots design had acquired secondary meaning during the period from its introduction in December 1987 to the time infringement began in May 1988. Appellants argue that this period of time was too short for the acquisition of secondary meaning.

The effect of mass exposure achievable with today's communications media can not be ignored in determination of secondary meaning. Fashion items take readily to development of secondary meaning upon mass media promotion, for the fashion status of the source is often part of the commercial

value of fashion items. L.A. Gear's advertising and promotion were extensive, and public demand for this design was shown, by sales figures, to have been rapidly achieved. *See McGregor-Doniger, Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1132, 1133 n. 4, 202 USPQ 81, 88 n. 4 (2d Cir. 1979) (considering extent of advertising in determining whether secondary meaning had been established); *Harlequin Enterprises Ltd. v. Gulf & Western Corp.*, 644 F.2d 946, 949 n. 1, 210 USPQ 1, 3 n. 1 (2d Cir. 1981) (considering sales success); *cf. American Footwear Corp. v. General Footwear Co.*, 609 F.2d 655, 663, 204 USPQ 609, 615-16 (2d Cir. 1979) (extensive advertising alone does not resolve the issue).

On this fact-dependent question, we discern no clear error in the district court's finding that secondary meaning had been established. It is thus unnecessary to consider the alternative question of inherent distinctiveness, as discussed in *Two Pesos*.

Likelihood of Confusion

A

Violation of § 43(a) requires, by statute, that there be a likelihood of confusion, mistake, or deception. "Similarity in overall appearance alone cannot establish source confusion *as a matter of law.*" *Coach Leatherware Co. v. AnnTaylor, Inc.*, 933 F.2d 162, 169, 18 USPQ2d 1907, 1913 (2d Cir. 1991). *See Centaur Communications, Ltd. v. A/S/M Communications, Inc.*, 830 F.2d 1217, 1220, 4 USPQ2d 1541, 1543 (2d Cir. 1987) (purpose of § 43(a) is to prevent consumer confusion as to a product's source). If likelihood of confusion is avoided, copying of trade dress can not be prevented under § 43(a).

The right to copy unpatented and uncopyrighted designs of articles of manufacture was stated in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S.Ct. 784, 11 L.Ed.2d 661, 140 USPQ 524 (1964), *reh'g denied*, 376 U.S. 973, 84

S.Ct. 1131, 12 L.Ed.2d 87 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed.2d 669, 140 USPQ 528 (1964), *reh'g denied*, 377 U.S. 913, 84 S.Ct. 1162, 12 L.Ed.2d 183 (1964). The evolution of state and federal laws of unfair competition had led some commentators to criticize the reach of *Sears* and *Compco*, as the Court remarked in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 154, 109 S.Ct. 971, 979, 103 L.Ed.2d 118, 136, 9 USPQ2d 1847, 1853 (1989) ("The preemptive sweep of our decisions in *Sears* and *Compco* has been the subject of heated scholarly and judicial debate"). However, the Court in *Bonito Boats* reaffirmed the principle of *Sears* and *Compco*, and reiterated that the public has the right to copy the design of goods that are unprotected by patent or copyright, absent consumer confusion or deception. The Court quoted *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917) (L. Hand, J.), as follows:

> [T]he plaintiff has the right not to lose his customers through false representations that those are his wares which in fact are not, but he may not monopolize any design or pattern, however trifling. The defendant, on the other hand, may copy plaintiff's goods slavishly down to the minutest detail: but he may not represent himself as the plaintiff in their sale.

Bonito Boats, 489 U.S. at 157, 109 S.Ct. at 981, 103 L.Ed.2d at 139, 9 USPQ2d at 1855.

The Court thus reaffirmed that when not protected by patent or copyright, even distinctive product designs can not be absolutely shielded from copying. In *Bristol-Myers Squibb Co. v. McNeil-P.P.C.*, 973 F.2d 1033, 24 USPQ2d 1161 (2d Cir. 1992), the Second Circuit pointed out that designs that are a trademark may also be protected:

> We do not mean to intimate that the distinctive elements of any trade dress may be freely appropriated as long as the

> junior user clearly identifies the source of the goods. In many cases, the distinctive elements of a trade dress may themselves be eligible for trademark protection.

973 F.2d at 1047, 24 USPQ2d at 1171.

L.A. Gear argues that *Sears*, *Compco*, and *Bonito Boats* are limited to issues of preemption to state law. These cases indeed arose on issues of state law of unfair competition. However, their pronouncements purport to be of far greater reach, for in each case the Court discussed and sought to balance in the public interest, the domains of patent and other forms of protection of intellectual property. The 1988 amendment of § 43(a) codified in federal law the evolving common law of unfair competition with respect to trade dress, and "filled an important gap in federal unfair competition law." Senate Rep. No. 515, 100th Cong., 2d Sess. 40-41 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5603. This step provided reassurance that protection of distinctive trade dress was not eliminated by *Sears* and *Compco*, by codifying the common law protection against confusion and deception. *See Sears*, 376 U.S. at 232, 84 S.Ct. at 789, 11 L.Ed.2d at 667, 140 USPQ at 528 (states may protect "distinctive dress in packaging"). However, it would exceed the congressional purpose to interpret the 1988 amendment to § 43(a) as creating a new form of industrial design protection. *See Lee v. Dayton-Hudson*, 838 F.2d at 1188 n.3, 5 USPQ2d at 1627 n.3 (referring to the absence of a federal industrial design law). Under § 43(a) the statutory requirement of likelihood of confusion must be met, in order to prohibit copying of the design of a product.

Although the protection of trade identification is a goal of the Lanham Act, § 43(a) seeks an appropriate balance among the divergent policies of protecting and encouraging creators and enabling fair competition by copiers, with the purpose of protecting consumers from confusion or palming off, while enhancing the consumer benefits of competition. In

Two Pesos, by concurring opinion Justice Stevens explained that:

> "[U]nder the Lanham Act [§ 43(a)], the ultimate test is whether the public is likely to be deceived or confused by the similarity of the marks.... Whether we call the violation infringement, unfair competition or false designation of origin, the test is identical--is there a 'likelihood of confusion?'" *New West Corp. v. NYM Co. of California, Inc.*, 595 F.2d 1194, 1201 (CA 9 1979).

___ U.S. at ___, 112 S.Ct. at 2763, 120 L.Ed.2d at 630-31, 23 USPQ2d at 1084 (alterations in original). Thus the right to slavishly copy a product design that is not the subject of patent, copyright, or trademark, is accompanied by the obligation to avoid confusion, mistake, or deception.

The burden of avoiding confusion, and the burden of proving that confusion has been avoided, are on the copier, for the Second Circuit has held that intentional copying of trade dress creates a presumption of confusing similarity:

> In assessing the likelihood of confusion to the public, an important factor is whether or not the second comer created the similar trade dress intentionally. If there was intentional copying the second comer will be presumed to have intended to create a confusing similarity of appearance and will be presumed to have succeeded.

Perfect Fit Industries, Inc. v. Acme Quilting Co., 618 F.2d 950, 954, 205 USPQ 297, 301 (2d Cir. 1980) and cases cited. These presumptions arise from the duty of the second comer "to so name and dress his product as to avoid all likelihood of consumers confusing it with the product of the first comer." *Harold F. Ritchie, Inc. v. Chesebrough-Pond's, Inc.*, 281 F.2d 755, 758, 126 USPQ 310, 312 (2d Cir. 1960). Applying these presumptions, the district court found likelihood of confusion between Appellant's shoes and L.A. Gear's Hot Shot shoes.

These presumptions are not irrebuttable. They place upon the copier the burden of proof and persuasion that consumer confusion has been avoided. The district court's holding that confusion was likely, with respect to Appellant's copies of the Hot Shots design, is reviewed in light of this burden.

Likelihood of confusion has been treated by the Second Circuit as, variously, a question of law based on underlying fact, *Murphy v. Provident Mutual Life Insurance Co.*, 923 F.2d 923, 928 (2d Cir. 1990), and a mixed question of law and fact, *see Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495, 128 USPQ 411, 413 (2d Cir.), *cert. denied*, 368 U.S. 820, 82 S.Ct. 36, 7 L.Ed.2d 25 (1961) (stating factors to be considered).

The district court held that the presence of Appellant's trademarks on the accused shoes did not dispel the likelihood of confusion, since the trademarks were similarly located on all the shoes and had the same two-tone colors. The district court observed that Appellant's and L.A. Gear's shoes were generally sold in different stores, and reasoned that confusion based on overall appearance was more likely because consumers would not be able to make a side-by-side comparison. The court found intent on the part of Appellants to benefit from the advertising efforts of L.A. Gear, and referred to a survey in which some respondents thought there was a relationship between the sources of the shoes. The court found that purchasers of women's and girls' athletic shoes were unsophisticated and would not commit a large amount of time to their purchase. The court observed the price differential between Appellants' and L.A. Gear's shoes, but did not consider this factor to be of balancing weight.

Appellants argue that the clear, prominent, and permanent labeling of their shoes with their own established trademarks is such a strong and effective factor in avoiding likelihood of confusion that it rebuts any presumption based on

actual copying. The entire product image must be considered, and all relevant factors must be weighed, in deciding whether Appellants's labeling, by use of their own trademarks and by their placement on the shoes, served to dispel confusion.

A copier must not only attempt to avoid likelihood of confusion; it must succeed in doing so. Thus when there is a source-indicating label, the label must be effective to make consumer confusion unlikely, in light of all the circumstances. L.A. Gear directs our attention to cases in which the source-indicating designation was found insufficient to avoid consumer confusion. In *LeSportsac v. K Mart* the plaintiff's and defendant's bags were "strikingly similar" in overall design and appearance, and it was held that relatively inconspicuous labeling, substituting the words "di paris sac" for "LeSportsac" in similar style and placement, did not avoid likelihood of confusion. 754 F.2d at 79, 225 USPQ at 659-60.

In *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 230 USPQ 831 (2d Cir. 1986), the defendant had placed, on the back pocket of denim jeans, a stitching pattern that was substantially similar to the Levi Strauss stitching pattern, which was the subject of a registered trademark. The defendant argued that likelihood of confusion was avoided because the jeans were clearly labeled as to origin. The court found that most of the labeling was intended to be discarded after purchase, that the Levi stitching pattern had acquired strong secondary meaning over a hundred years of use, and that labeling at the point of purchase was insufficient to prevent likelihood of confusion after the labels were removed.

Appellants argue that their facts are strongly different from those of *LeSportsac* and *Lois Sportwear*, wherein the trademarks themselves were confusingly similar, as well as the design of the good to which they were applied. They cite *Bose Corp. v. Linear Design Lab, Inc.*, 467 F.2d 304, 309, 175 USPQ 385, 389 (2d Cir. 1972), wherein the court found that

"[t]he presence of [defendant's] name on the product goes far to eliminate confusion of origin", and *Norwich Pharmacal Co. v. Sterling Drug, Inc.*, 271 F.2d 569, 571, 123 USPQ 372, 375 (2d Cir. 1959), *cert. denied*, 362 U.S. 919, 80 S.Ct, 671, 4 L.Ed.2d 739 (1960), where the court held confusion unlikely since the names on the bottles were easily distinguished although the appearance of the products was otherwise similar. In *Stormy Clime*, 809 F.2d at 977, 1 USPQ2d at 2031, the defendant's labeling of its raincoats at the inside of the neck, described as a customary location where consumers would expect to find it, was mentioned as one of the factors that differentiated the products.

The court in *Bose* remarked that "the mere act of copying would not amount to unfair competition". *Bose*, 467 F.2d at 310, 175 USPQ at 390. In *Bristol-Myers Squibb*, 973 F.2d at 1046, 25 USPQ2d at 1170, the court held that despite the similarity of package colors, size, and lettering, confusion was unlikely due to the prominent placement of the famous trademarks on the respective packages. However, the court cautioned that:

> In other cases the trade name [sic: trademark] may be a less dominant feature of the entire trade dress and thus have less force in countering other similarities between two trade dresses. Also, the junior user's trade name may less strongly identify a particular source than the "Tylenol" name at issue here.

Id. at 1047, 25 USPQ2d at 1171. L.A. Gear argues that *Bristol-Myers Squibb* is limited to product packaging and the particular fact of the well-known trademarks there involved. However, the holding in *Bristol-Myers Squibb* is in accord with other Second Circuit rulings directed to the dress of the product itself.

Appellants state, without apparent dispute, that the trademarks BALLOONS, AEROBIX, and MacGREGOR are

well known in the discount shoe milieu, and are recognized by consumers. Melville states that before applying these marks to its copies of L.A. Gear's Hot Shots shoes, it had sold over nine million pairs of shoes with the AEROBIX trademark, over eleven million pairs of shoes with the MacGREGOR trademark, and about forty million pairs of shoes with the BALLOONS trademark.

Appellants stress the prominent position of these trademarks on the shoes, permanently placed and easily read. Appellants refer to *Reebok International Ltd. v. Alon*, 5 USPQ2d 1830, 1831 (C.D.Cal.1987), wherein the court found consumer confusion unlikely "given the overall differences in appearance and the highly visible individual names of each of the brands of shoes". *See also Payless Shoesource Inc. v. Reebok International Ltd.*, 804 F. Supp. 206, 25 USPQ2d 1130 (D.C.Kan.1992), wherein the court found the similarity of appearance of the two shoe designs was lessened by the fact that each shoe bore a different brand name.

We also deem it relevant that these shoes move in different retail channels. Although the district court found that this fact favored consumer confusion because it prevented side by side comparison, the Second Circuit has held that sales in different kinds of stores is a factor weighing against a likelihood of confusion. *See Vitarroz Corp. v. Borden, Inc.*, 644 F.2d 960, 967, 209 USPQ 969, 975 (2d Cir.1981) (fact that plaintiff's product was sold primarily in specialty stores that did not carry any of defendant's products gave "some weight" to holding of no likelihood of confusion). Similarly, the significant price difference can not be ignored. *See McGregor-Doniger v. Drizzle*, 599 F.2d at 1134-35 202 USPQ at 90 (differences in price aided in making confusion unlikely between the original and the copy); *Speedry Products, Inc. v. Dri Mark Products, Inc.*, 271 F.2d 646, 651, 123 USPQ 368, 372 (2d Cir.1959) (wide price differential was deemed a significant factor against likelihood of confusion). Purchasers in discount stores are sufficiently sophisticated, we believe, to

know whether they are buying the cheaper copies or the expensive originals. The marks BALLOONS, MacGREGOR, and AEROBIX are plainly legible, as is the similarly positioned trademark L.A. GEAR; unlike the situation in *LeSportsac*, where "di paris sac" as displayed was not readily distinguishable from "LeSportsac". Because the labeling is permanent, the likelihood of post-sale consumer confusion is avoided, unlike the situation in *Lois Sportswear*.

We conclude that the conspicuous and permanent placement of the trademarks of L.A. Gear as well as the copyist, and the sophistication of purchasers of fashion athletic shoes, clearly outweigh the similarities in the shoe design, insofar as consumer confusion as to source is avoided. We think the district court was mistaken in viewing these consumers as unsophisticated and casual in these purchases. We agree with Appellants that purchasers of fashion athletic shoes are likely to be well aware of the sources of such shoes, when such sources are conspicuously marked on the shoes by both copier and originator.

Considering all the factors, we conclude that the district court clearly erred in holding that purchasers of these BALLOONS or MacGREGOR or AEROBIX athletic shoes would be likely to be confused or deceived or mistakenly think that they were buying the L.A. GEAR athletic shoes, despite the substantial similarity of overall design. The district court's holding of unfair competition under § 43(a) of the Lanham Act is reversed as to these six models of shoes bearing the trademarks BALLOONS, AEROBIX, and MacGREGOR.[6]

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6 Since our determination is premised in part on the fact that BALLOONS, MacGREGOR, and AEROBIX are established trademarks, this ruling does not apply to shoe models carrying other marks.

III

NEW YORK LAW OF UNFAIR COMPETITION

The district court found that Appellants had violated the New York law of unfair competition. The parties agree that the only difference between this New York law and § 43(a) of the Lanham Act is that proof of secondary meaning is not required under New York law. That difference is now mooted because, as we have affirmed, secondary meaning was established. Thus our ruling with respect to § 43(a) also applies to the New York state action for unfair competition.

Costs

No costs.

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED.

MAYER, Circuit Judge, concurring in-part and dissenting in-part.

I would affirm the district court's judgment that Thom McAn Shore Company, Melville Corporation and Pagoda Trading Company, Inc. are liable for unfair competition based on trade dress infringement under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1988), and the New York state law of unfair competition. I agree with this court that secondary meaning of L.A. Gear's trade dress has been established, but I see no error in the district court's conclusion that there is a likelihood of confusion.

The trial court properly applied the factors set out in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 498, 495, 128 USPQ 411, 413 (2nd Cir.1961), to determine whether a likelihood of consumer confusion exists. Its findings

of fact en route to its conclusion are entitled to "considerable defference." *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 873, 230 USPQ 831, 835 (2nd Cir.1986). The district court's findings on the *Polaroid* factors are amply supported by the evidence in the record, are not clearly erroneous, and all weigh in favor of its determination that a likelihood of confusion exists. It is apparent that the only way to come to any other conclusion is for this court to reweigh the evidence that was before the trial court, and to substitute its "hunch" for the district court's judgment. This is an impermissible intrusion on the fact finding role of the district court, and a violation of the proper role of an appellate court.

Of course, the decision on this issue is founded on the law of the second circuit, and the views of this court on second circuit law are not binding on anyone beyond the immediate litigants. So I view it as counterproductive for this court to issue a lengthy published "precedential" opinion purporting to set out the state of the law of that circuit. The practice of expounding on the law of other circuits only obfuscates the doctrine it ostensibly attempts to clarify, and should be avoided in light of the curious rule that we are bound by that law. "I can hardly see the use of writing judicial opinions unless they are to embody methods of analysis and of exposition which will serve the profession as a guide to the decision of future cases. If they are not better than an excursion ticket, good for this day protective coloration for the writer of the opinion and would much better be left unsaid." Justice Stone to Professor Frankfurter *quoted in* C. Miller, The Supreme Court and the Uses of History 13 (1969).

I have no quarrel with the disposition of the design patent infringement issue, although I see nothing "adding significantly to the body of law," Fed. Cir. R. 47.8(b), to warrant publication.

EXHIBIT 1

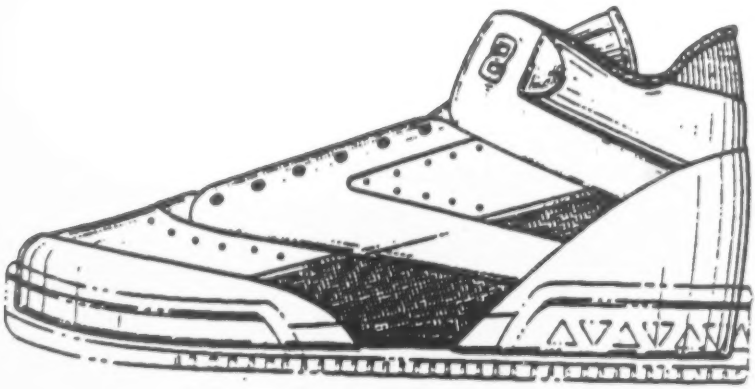

EXHIBIT 2

EXHIBIT 3

District Court, S. D. New York

L.A. Gear Inc. v. Thom McAn Shoe Co.

No. 88 Civ. 6444 (RJW)

Decided April 19, 1989

Action by L.A. Gear Inc. against Thom McAn Shoe Co., Melville Corp., Pagoda Trading Co. Inc. and San Shoe Corp. for design patent infringement, trade dress infringement, unfair competition, and dilution. Judgment for plaintiff.

Robert A. Horowitz and Mark S. Gregory, of Kelly, Drye & Warren, New York, N.Y., for plaintiff.

George W. Whitney, Joseph D. Garon, Doreen J. Leavens, Brendan J. O'Rourke, and Frederick A. Tecce, of Brumbaugh, Graves, Donohue & Raymond, New York, for defendants Thom McAn and Melville Corp.

Mark E. Goodman, of Rosenblum, Goldenhersh, Silverstein & Zafft, for defendant Pagoda Trading Co. Inc.

Ward, J.

Plaintiff, L.A. Gear, Inc. ("L.A. Gear") has brought suit against defendants Thom McAn Shoe Company ("Thom McAn"), Melville Corporation ("Melville") Pagoda Trading Company, Inc. ("Pagoda"), and San Shoe Corporation,[7] alleging infringement of its trade dress rights under Section 43(a) of the Lanham Act, 15 U.S.C. Section 1125(a), unfair competition under New York law and violation of the anti-dilution provision in Section 368(d) of the General

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7 Plaintiff has withdrawn, with prejudice, all claims against defendant San Shoe Corporation.

Business Law of New York. Defendants Thom McAn and Melville are also charged with infringing the patent on the design of the upper portion of the Hot Shots high top shoe in violation of 35 U.S.C. Section 271. For the reasons that follow, the court finds that the three remaining defendants have violated Section 43(a) of the Lanham Act and the New York law of unfair competition, and that defendants Melville and Thom McAn have infringed plaintiff's design patent.

FACTUAL BACKGROUND

L.A. Gear is a corporation organized and existing under the laws of the State of California with its principal place of business at 4221 Redwood Avenue, Los Angeles, California.

L.A. Gear is engaged in the design, distribution and sale of fashion athletic footwear. In terms of sales, L.A. Gear had the fourth largest market share in branded athletic footwear during 1988, a market share of 4.7 percent compared to over 20 percent each for Reebok and Nike, and slightly more than L.A. Gear's market share for Converse.

Defendant Melville was founded in 1914 and is a corporation organized and existing under the laws of the State of New York. Melville is one of the largest domestic diversified specialty retailers with over 96,000 employees in the United States. It operates men's, women's and children's retail apparel stores and shoe stores, chain stores selling toys, games, hobby items, furniture and prints and posters as well as health, drug and beauty aid stores.

Melville sells footwear through various retail chain stores owned by Melville and through leased shoe departments at K Mart Stores.

Thom McAn is a division of Melville, having its principal offices in Worcester, Massachusetts, engaged in the

sale of shoes solely in Thom McAn stores throughout the United States. Thom McAn uses purchasing agents to design shoes (in conjunction with Thom McAn buyers) and to arrange for their manufacture in the Far East and their importation into the United States.

Meldisco is a division of Melville, having its principal offices in Mahwah, New Jersey, engaged in the sale of shoes solely through the shoe departments it leases in K Mart retail stores through the United States. Meldisco uses purchasing agents to design shoes (in conjunction with Meldisco buyers) and to arrange for their manufacture in the Far East and their importation into the United States.

Pagoda was founded in 1973, and is a corporation organized and existing under the laws of the State of Missouri, having its principal offices in St. Louis, Missouri. Pagoda is a wholly-owned subsidiary of Sidney Rich Associates, Inc., a Missouri corporation, and has acted as a purchasing agent for footwear retailers, including Melville and Thom McAn. It is engaged in designing shoes and arranging for their manufacture in the Far East and their importation into the United States.

This Court has jurisdiction over the subject matter pursuant to the provisions of 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331, 1332 and 1338 as the action involves federal trademark and patent claims joined with related claims for unfair competition under state law, and the amount in controversy exceeds $10,000 exclusive of costs and interest.

During April and May of 1987, Patricia Quan and Angelo Maccano of L.A. Gear's in-house design department, and Robert Greenberg, President of L.A. Gear, began to design a low top model shoe known as the Court Player, and high top and low top model shoes known as the Hot Shots.

Quan, the principal designer of these shoes, first produced a sketch of what was to become the Court Player

shoe. The Court Player was developed to be a competitive version of the Reebok Club Champion shoe. In its final sale form, the Court Player is visually distinct from the Club Champion, although both are the same general style athletic shoe.

As the design of the Court Player was undergoing modification, Quan, at the direction of Greenberg and Maccano, began work on a high top complement to that shoe. These efforts resulted in the sketch of the Hot Shots design which was completed by Quan in June 1987.

During June 1987 Quan's Hot Shots design sketch was sent to L.A. Gear's liaison office in Korea so that sample copies could be constructed by independent manufacturers in the Orient. These samples were then subject to further modification. Quan included instructions with her sketch which referred to various types of material from certain Nike shoes she wished to have incorporated into the samples. Both Greenberg and Maccano had input into certain changes that were made to the initial design, which was also altered somewhat by plaintiff's Korean office in creating the samples. At this time the design of the Court Player had not yet been completed.

The final design of the Hot Shots was completed over the summer of 1987. The Hot Shots design was the first style of athletic shoe to incorporate the following design features in combination with each other: PVC mesh as trim over a color-coordinated PVC underlay along the side of the shoe rising upward from the toe box to the rear corner in a diagonal design; a piping which borders the upper portion of the mesh; a two-tone logo embroidered on the delta wing; and a color-coordinated Bonex mustache. While many of these design elements had appeared on various athletic footwear prior to the spring and summer of 1987, no shoe had ever contained an overall design configuration similar to that employed by the Hot Shots.

In the late summer and early fall of 1987, the Hot Shots model was shown to various retailers at industry-wide shoe shows. In August, 1987, L.A. Gear decided to utilize the Hot Shots as its "hero" or ""signature shoe" for the upcoming year. This election, made at least in part by Greenberg, was in keeping with L.A. Gear's policy of selecting one shoe in its line and focusing the vast majority of its promotional and advertising efforts on that shoe.

L.A. Gear actively sought to inform retailers that the Hot Shots would be the focus of its intensive advertising campaign in an effort to promote orders for the shoe. Retailers responded and L.A. Gear began to receive orders for the Hot Shots by the end of September, 1987.

Annette Ellis, the advertising director for L.A. Gear, was responsible for overseeing the Hot Shots promotion. She testified that the Hot Shots advertising campaign amounted to over seventy percent (70%) of L.A. Gear's actual expenditures for advertising.

In total, during 1988 L.A. Gear spent over five million dollars advertising the Hot Shots. The advertising was distributed among television commercials on both commercial and cable television, billboards, print advertisements in magazines, and point-of-purchase advertisements in stores. Television commercials for the Hot Shots cost in excess of four million dollars in 1988, and the billboard expenditures were in the range of seven hundred to eight hundred thousand dollars. All of the advertising was visual and clearly contained the Hot Shots.

L.A. Gear first advertised the Hot Shots shoe to the shoe industry on November 2, 1987 through a full-page back cover ad in Footwear News, a trade newspaper.

In December, 1987, consumer advertisements were placed in the February editions of certain magazines which

appeared on the newsstands in January 1988. These advertisements generally featured a full right profile view of the Hot Shots as well as the L.A. Gear name.

As part of its advertising campaign, L.A. Gear advertised in the print media on more than a dozen occasions prior to June 1988. All of the advertisements were in color and most of them encompassed a full magazine page.

The initial television commercial for the Hot Shots, entitled Photograph Her II, first aired on commercial television on approximately March 15, 1988. This commercial was run in thirty-five (35) different markets, including the major metropolitan areas, for a four week period at a frequency rate designed to have every household with a television set in these markets view the ad from three to nine times. The Hot Shots design was featured throughout the commercial along with the L.A. Gear name.

Photograph Her II was also run in the late summer-early fall, along with another L.A. Gear commercial that did not feature the Hot Shots. In addition, three versions of a commercial with a Christmas theme were aired during November and December of 1988, which also contained profile views the Hot Shots, as well as other shoes.

In February 1988, billboards appeared advertising the Hot Shots. They included ten (10) large painted billboards generally located at high visibility points in metropolitan areas which clearly featured the Hot Shots design, as well as several hundred smaller paper billboards. Most of the painted billboards were erected by April 1988.

In addition, L.A. Gear engaged in cooperative advertising with retailers where they helped finance a percentage of the costs of the retailer's advertisements which featured L.A. Gear shoes.

Finally, the Hot Shots and L.A. Gear in particular received some degree of unsolicited media attention in 1988 through television news reporting and magazine articles regarding fashion trends and competition in the athletic footwear industry.

The 1988 campaign to promote the Hot Shots was successful. As of February 15, 1989, over four million pairs of Hot Shots had been sold. The sales volume for the Hot Shots was significantly higher than for any other L.A. Gear shoe. The next best selling shoe for L.A. Gear was the "hero shoe" for 1987 the Street Slammers, with total sales approximately in the five hundred thousand to six hundred thousand pair range.

The buyers of women's and girls' athletic shoes for Meldisco and for Thom McAn decided to make substantially similar copies of the L.A. Gear Hot Shots in or about February 1988. Pagoda, the purchase agent, provided drawings and sample shoes to the Meldisco or Thom McAn buyer, assisted in the development of the design of the shoe, and sourced the manufacturer of the shoe.

The Meldisco buyers and Pagoda designed and had manufactured a women's high top Aerobix shoe Style No. 78505, a girls' high top Aerobix shoe Style No. 76878, a women's low top Aerobix shoe Style No. 79404, and women's low top MacGregor shoe, Style No. 16814.

The Thom McAn buyers and Pagoda designed and had manufactured a women's high top Balloons shoe, Style No. 78191.

It is not unusual for a certain segment of the footwear industry to make competitive versions of popular branded shoes. L.A. Gear has done this in the past. In making competitive versions, athletic shoe companies generally attempt

to differentiate their models so that they are not sufficiently similar in appearance to cause confusion in the marketplace.

A number of third parties have made or sold versions of the Hot Shots which employ the same overall design. L.A. Gear has protested the sale of certain of these shoes, and is in the process of litigating or negotiating an outcome to these disputes.

Stanley Siegel, a salesman for Pagoda, was involved in the creation of the shoes purchased by Meldisco. Elliott Sherman, also a salesman for Pagoda, was involved in the design of the women's high top shoe purchased by Thom McAn. Siegel and Sherman became aware of the existence of L.A. Gear's Hot Shots at some time prior to the time they presented sketches and samples of the Aerobix and MacGregor shoes to Meldisco, and the women's Balloons shoe to Thom McAn.

James Miller, who is responsible for merchandising of athletic footwear at Thom McAn, oversaw the development of the women's high top Balloons shoe. During this time, he was familiar with the Hot Shots design and knew they were selling at retail.

The Meldisco buyers became aware of the existence of L.A. Gear's Hot Shots at some time prior to the time they decided to market at retail the Aerobix and MacGregor shoes. Arthur Wagner, a senior merchandiser for Meldisco, was familiar with L.A. Gear's Hot Shots at the time he impressed upon Jim Kimberlain, the Meldisco women's athletic footwear buyer, the need to add the MacGregor shoe to the line. He testified that the Hot Shots design, which was known to be successful, played a major role in the development of the Meldisco shoes.

Pagoda and the Meldisco buyers used the design of L.A. Gear's Hot Shots as a model for the design of the

Aerobix and MacGregor shoes, and intended the Aerobix and MacGregor shoes to be copies of L.A. Gear's Hot Shots.

The Thom McAn buyers became aware of the existence of L.A. Gear's Hot Shots at some time prior to the time they decided to market at retail the Balloons shoe.

Pagoda and the Thom McAn buyers used the design of L.A. Gear's Hot Shots as a model for the design of the Balloons shoe, and intended the Balloons shoe to be a copy of L.A. Gear's Hot Shots.

Many of the individuals from Pagoda, Melville and Thom McAn who were involved with the creation of the shoes challenged here, have referred to these shoes as Hot Shots.

Third parties who have made versions of the Hot Shots also have referred to their respective versions as Hot Shots.

The Aerobix, MacGregor and Balloons shoe in issue all contain substantially the same design configuration as the Hot Shots. They each contain a logo bearing their trade name on the delta wing portion of the shoe in the same place and with much the same design as the L.A. Gear logo which appears on the Hot Shots. The manufacturer's name does not appear anywhere on the challenged shoes. The overall visual feature of defendants' shoes are strikingly similar to the trade dress of the L.A. Gear Hot Shots.

The only advertising Thom McAn has done for its accused women's Balloons shoe is a single advertisement in a flyer announcing the grand opening of the Sunland Park Mall in Texas promoting a one-half price off sale.

The only advertising Meldisco has done for its accused Aerobix shoes are the following: Two K Mart roto flyers, a picture of the women's Aerobix shoes in K Mart advertising inserts to Seventeen and Teen magazines, and a Sports

Illustrated For Kids Magazine (January 1989) for the K Mart Gym Kids Club, in which the women's Aerobix shoe is shown.

The only advertising Meldisco has done for its accused MacGregor shoes is a single K Mart roto insert.

L.A. Gear sells its shoes, including the Hot Shots, through department stores, sporting goods stores, athletic shoe stores and men's and women's shoe stores. The Hot Shots sold at retail within a price range of from thirty-five ($35) dollars to sixty ($60) dollars. L.A. Gear has a policy of not selling its shoes through discount stores such as K Mart. Nor are its shoes sold in Thom McAn stores.

Meldisco sells athletic shoes in K Mart retail stores under its trademarks Aerobix and MacGregor. Meldisco also sells in K Mart retail stores national brand name athletic shoes such as Reebok, Nike, Adidas, Avia, Pony and Puma. Meldisco has, at some point, sold L.A. Gear Hot Shots at K Mart retail stores.

Thom McAn sells athletic shoes in its stores under its trademark Balloons as well as under other trade and brand names. Thom McAn also sells in its stores national brand name athletic shoes such as Pony, Spalding and Converse.

Meldisco began to sell the Aerobix girls' high top shoe in or about May 1988. The average retail price of the shoe was thirteen dollars and sixteen cents ($13.16) a pair. Meldisco has approximately thirty-eight thousand nine hundred (38,900) pairs of these shoes remaining in inventory.

Meldisco began to sell the Aerobix women's high top shoe in or about July 1988 at a price of approximately seventeen dollars and ninety-eight cents ($17.98) per pair, and a promotional price of twelve dollars and ninety cents ($12.90) a pair. Meldisco has approximately thirty-six thousand eight hundred (36,800) pairs of these shoes remaining in inventory.

Meldisco began to sell the Aerobix low top women's athletic shoe in or about September 1988 at a price of approximately fourteen dollars and ninety-nine cents ($14.99) a pair. Meldisco has approximately twenty thousand four hundred (20,400) pairs of these shoes remaining in inventory.

Meldisco began to sell the MacGregor low top women's athletic shoe in or about August 1988 at a retail price of approximately twenty-four dollars and ninety-nine cents ($24.99) and at a promotional price of sixteen dollars and ninety-nine cents ($16.99). Meldisco has approximately thirty-eight thousand (38,000) pairs of these shoes remaining in inventory.

Thom McAn began to sell the Balloons women's athletic shoe in or about June, 1988 at a retail price of thirty-two dollars and ninety-nine cents ($32.99) per pair. These shoes have also been sold at a promotional price of twenty-six dollars and forty-nine cents ($26.49), an interim price of twenty dollars ($20), and a clearance price of nine dollars ($9).

On November 18, 1987, Quan, Maccano and Greenberg filed an Application for a design patent with the Patent and Trademark Office (PTO), claiming the design of the upper of the high top Hot Shots. Quan and Maccano initially believed that there could be no relevant prior art for the Hot Shots design because they had conceived of the new design themselves. Therefore, they did not provide prior art references to L.A. Gear's patent counsel for the initial design patent application.

L.A. Gear filed a Petition to Make Special under 37 C.F.R. § 1.102(d), dated May 23, 1988. accompanied by prior art references and a discussion of these references. The prior art search was conducted by L.A. Gear's patent counsel and included a literature search and a review of L.A. Gear's patent file.

The patent examiner, Louis S. Zarfas ("Zarfas") reviewed all of the references cited by L.A. Gear with the Petition to Make Special, as well as five references he found. On September 29, 1988, the PTO issued a Notice of Allowability.

On or about November 8, 1988, L.A. Gear filed a Petition under 37 C.F.R. § 1.312(B) to Reopen Prosecution and submitted to the PTO nine design patents forwarded by Macano to patent counsel. These prior art references had not been cited by plaintiff in its previous filings with the PTO. They included the design patent for the Reebok Act 600 shoe, which utilized a form of mesh. At least two of the inventors of the Hot Shots, Greenberg and Maccano, were aware of the Reebok Act 600 prior to the invention of the Hot Shots.

In early 1986, before L.A. Gear had a design department, it was sued by Reebok for a shoe which it had purchased through an agent, BDC International, that infringed Reebok's Act 600 trade dress. L.A. Gear canceled its orders for the shoe and never imported it. The Bua design Patent No. 298,846, covering the Reebok Act 600 was not issued until January 26, 1988, two years later. Patent Examiner Zarfas was the primary examiner on this patent as well.

On December 21, 1988, Patent Examiner Zarfas considered all of the additional prior art submitted by L.A. Gear. Zarfas, who was the patent examiner for all but one of the design patents submitted by L.A. Gear with its supplemental disclosure statement, concluded that the prior art did not anticipate the Hot Shots design and that the design was not obvious.

On December 27, 1988, the PTO issued Design Patent No. 299,081 ("the '081 patent") to Robert Greenberg, et al. The design patent was assigned to L.A. Gear. L.A. Gear gave notice of the issuance of the '081 patent to Melville, Thom McAn and Pagoda by letter dated December 30, 1988.

Meldisco is currently selling the high top Aerobix shoes at K Mart retail stores. Thom McAn continued to sell the women's Balloons shoe until its inventory was exhausted in February 1989. Melville, Thom McAn and Pagoda are not and have never been licensed or authorized by L.A. Gear to make or sell the accused shoes.

By letter dated May 27, 1988, counsel for L.A. Gear demanded that Thom McAn cease and desist from selling the Balloons shoe at issue in this action. By letter dated June 1, 1988, counsel for Thom McAn requested better copies of the attachments to the May 27 letter (showing the L.A. Gear Hot Shots and the Balloons shoe) and copies of the L.A. Gear design patent applications referred to in the May 27 letter. By letter dated June 1, 1988, counsel for L.A. Gear sent copies of the attachments to the letter dated May 27, 1988, and two sets of photographs of the L.A. Gear Hot Shots, but not copies of the design patent application.

Plaintiff filed the complaint in this action on September 16, 1988, and subsequently amended it to add the claims against the MacGregor women's low top shoe and the claims of patent infringement.

DISCUSSION

A. Patent Infringement

Once a patent is issued, it is presumed valid. 35 U.S.C. § 282. The burden falls on the party challenging the design patent to show by clear and convincing evidence that the patent failed to meet the standards of 35 U.S.C. § 171 that it be new, original and ornamental. *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 894 [221 USPQ 669, 673-674] (Fed. Cir.), *cert. denied*, 469 U.S. 857 [225 USPQ 792] (1984).

In order for a design patent to be valid, it must be novel and must not have been obvious to one of ordinary skill in the particular art. 35 U.S.C. §§ 102, 103. Defendants concede that plaintiff's design passes the technical requirement of novelty or anticipation because each element of the design was not previously in the same arrangement in one single prior art reference. 35 U.S.C. § 102; *Verdegaal Bros., Inc. v. Union Oil Co. of Cal.*, 814 F.2d 628, 631 [2 USPQ2d 1051, 1052-1053] (Fed. Cir. 1987).

Instead, they argue that the design was obvious because the essential features of the design had appeared before in several different prior art references. The factors used to determine the legal question of obviousness are: (1) the scope and content of the prior art at the time the development was made, (2) the differences between the prior art and the claimed advance, (3) the level of ordinary skill in the art at that time and (4) other secondary considerations which may serve as objective indicia of nonobviousness. *Litton Industrial Products, Inc. v. Solid State Systems Corp.*, 755 F.2d 158, 163 [225 USPQ 34, 37] (Fed. Cir. 1985) (citing *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 [148 USPQ 459, 467] (1966)). The evidence showed that while many of the individual aspects of plaintiff's design had been used in some manner on shoes,

there had never been a shoe which combined all of these elements in a manner approaching the design of the Hot Shots.

In *Avia Group Int'l, Inc. v. L.A. Gear California, Inc.*, 7 U.S.P.Q.2d 1548 (Fed. Cir. 1988), L.A. Gear, as defendant, was found to have infringed a design patent of a competitor. The Federal Circuit in *Avia* found that the existence of some components of the new design in prior art did not suggest the overall appearance of the design to the ordinary shoe designer and therefore the design was not obvious. *Id.* at 1554. "'[I]f the combined teachings [of the prior art] suggest only components of the claimed design but not its overall appearance, a rejection under section 103 is inappropriate.'" *Id.*, (citing) *In re Cho*, 813 F.2d 378, 382 (1 USPQ2d 1662, 1663] (Fed. Cir. 1987).

This Court, after examining the prior art references considered by the patent examiner, as well as the myriad of additional submissions by defendants that could be determined to have existed prior to the design of the Hot Shots, finds that the overall appearance of the Hot Shots design would not have been obvious to an ordinary shoe designer. The Court notes that Patent Examine Zarfas, who issued the patent in question, was familiar with most of the relevant prior art references and had been extensively involved in reviewing patent applications for shoe designs for a number of years. In fact, he was the primary patent examiner on a significant number of those prior art references deemed relevant by both parties. The patent examiner's determination of nonobviousness, of course, is imbued with a presumption of validity. While submission of more relevant prior art than that submitted to the patent examiner enables defendants to more easily carry the burden of proof to override the presumption of patent validity, *see Lindmann Maschinenfabrik, GmbH v. American Hoist & Derrick Co.*, 730 F.2d 1452, 1460 [221 USPQ 481, 486-487] (Fed. Cir. 1984), nothing presented by the prior art shown to the Court leads to a different conclusion regarding obviousness. Further buttressing this determination are the

objective indicia of nonobviousness apparent in the case: defendants' intentional copying of the design and the sales success of the product. *See Avia Group Int'l, Inc. v. L.A. Gear California, Inc., supra,* 7 U.S.P.Q.2d at 1554.

Obviousness is not the only hurdle a design patent must pass in order to be valid. If a design is primarily functional, not ornamental, it is not patentable. 35 U.S.C. § 171. In *Avia*, the Federal Circuit agreed with the district court's analysis that even if each "little aspect" of the upper shoe design had a function, "'that would not make the design primarily functional. If the functional aspect or purpose could be accomplished in many other ways that [sic] is involved in this very design, that fact is enough to destroy the claim that this design is primarily functional.'" *Id.* [7 USPQ2d at 1553]. (quoting *Pensa Inc. v. L.A. Gear California, Inc.*, 4 U.S.P.Q.2d 1016, 1019). It is clear from the evidence presented that there are many other ways to achieve the functions attributed to the design elements of the Hot Shots shoes without having to utilize the exact design configuration of the shoe. In fact, many shoes were presented which would fit into the category of female fashion athletic shoes with color which contain all the necessary structural design elements but which do not appear to simulate plaintiff's design. The existence of such competing shoes indicates that the design configuration is ornamental, not functional, and therefore is patentable.

In addition, defendants had challenged the patent on the grounds that plaintiff had committed fraud by making false representations in submissions to the Patent and Trademark Office and was guilty of inequitable conduct, including the making of material omissions in the application process. Defendants have the burden of proof to show, by clear and convincing evidence, that fraud or inequitable conduct occurred. *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 872 [9 USPQ2d 1384, 1388-1389] (Fed. Cir. 1988). The evidence presented did not support finding

there was any intent to deceive the patent office in the application process. While certain discrepancies were present, in large part due to Ms. Quan's and Mr. Maccano's misunderstanding of the meaning of prior art, no evidence was presented sufficient to find fraud or inequitable conduct. Defendants have not continued to press these points, and the Court finds nothing in the facts to invalidate the patent based on these grounds.

Once a design patent is shown to be valid, plaintiff must then demonstrate that the design of defendants' product infringes on the patented design by a preponderance of the evidence. *Lee v. Dayton-Hudson Corp.*, 838 F.2d 1186, 1187 [5 USPQ2d 1625, 1626] (Fed. Cir. 1988). In this case, it is clear that defendants' shoes infringe on the design patent. The Supreme Court established that infringement of a design patent is shown if plaintiff demonstrates that an ordinary consumer, giving such attention as a consumer usually gives, would be induced to purchase defendants' shoes thinking they are plaintiff's shoes due to the resemblance of the design. *E.g.*, *Gorham v. White*, 81 U.S. 511, 528 (1871); *Lee v. Dayton-Hudson Corp.*, *supra*, 838 F.2d at 1187 [5 USPQ2d at 1625-1626] (Fed. Cir. 1988). The design of the upper of defendants' shoes is almost a direct copy of plaintiff's design. As will be more fully demonstrated in the unfair competition discussion, the evidence dictates a finding of infringement.

1. *Enhanced Damages:*

The Court is authorized by the patent statute to "increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. An enhancement of damages must be premised on willful infringement or bad faith. *Yarway Corp. v. Eur-Control U.S.A., Inc.*, 775 F.2d 268, 277 [227 USPQ 352, 358-359] (Fed. Cir. 1985). Once a potential infringer has obtained actual notice of another's patent rights, he or she has an affirmative duty of due care not to infringe on those rights. *Rolls Royce, Ltd. v. GTE Valeron Corp.*, 800

F.2d 1101, 1109 [231 USPQ 185, 190- 191] (Fed. Cir. 1986). To meet the affirmative duty of due care that defendants had from December 30, 1988, when they were first notified of the issuance of the patent, they must have investigated the scope of the patent and formed a good faith belief that it was invalid or that it was not infringed. *See Bott v. Four Star Corp.*, 807 F.2d 1567, 1572 [1 USPQ2d 1210, 1213-1214] (Fed. Cir. 1986). The affirmative duty includes the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity, though not every failure to seek an opinion of counsel will mandate an ultimate finding of willfulness. *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1579 [230 USPQ 81, 90-91] (Fed. Cir. 1986), *cert. denied*, 479 U.S. 1034 (1987). Any determination of willfulness depends on a totality of the circumstances. *Id.*; *Windsurfing Int'l Inc. v. Osterman GmbH*, 668 F. Supp. 812, 813 [4 USPQ2d 1429, 1430-1431] (S.D.N.Y. 1987).

The context of this action militates against a finding of willful infringement. The design patent was not issued in this case until December 27, 1988, months after the initial unfair competition claim had been filed. Defendants, and their attorneys, were already in the process of vigorously defending against the pending lawsuit and had previously objected to the validity of any patent claim. No specific evidence was produced at trial that defendants sought and received the opinion of counsel regarding the validity of the patent. However, the Court believes that the facts present a reasonable basis to infer that such an opinion was given, in light of the litigious position of the parties at the time. The legal position that the patent was invalid was voiced in defendants' responsive pleading to the amended complaint and the pre-trial order and reflects counsel's obligations under Rule 11, Fed.R.Civ.P. Furthermore, there was a reasonable basis for the belief that the patent was invalid, fueled by the belief that the patent examiner had not been given an adequate opportunity to consider all the prior relevant art references. This position was reasonable, in the Court's view, because the pretrial

investigations both before and after the issuance of the patent had uncovered certain discrepancies that occurred in plaintiff's filing of the patent application, including the failure to include any prior art with the initial application and the late date of the filing of the Petition to Reopen Prosecution. Defendants ultimately did not continue to pursue their claims of fraud or inequitable conduct once the facts at trial had been developed, but these circumstances provided support for their initial position. While there is evidence of intentional copying of plaintiff's design which would support a finding of bad faith, there was sufficient merit in defendants' arguments to suggest that their belief in the patent's invalidity was held in good faith. Accordingly, the Court concludes that defendants' infringement of the patent does not merit an award of enhanced damages.

B. *Unfair Competition Under Section 43(a) of the Lanham Act*

Section 43(a) of the Lanham Act establishes the statutory basis for a federal claim of unfair competition which prohibits the marketing of a product that conveys a "false designation of origin." 15 U.S.C. § 1125(a). Section 43(a) has been interpreted to entitle the first manufacturer of a product to an unregistered trademark in the "trade dress" of its product. *Stormy Clime Ltd. v. Pro-Group, Inc.*, 809 F.2d 971, 974 [1 USPQ2d 2026, 2028] (2d Cir. 1987). The trade dress of a product "'involves the total image of a product and may include features such as size, shape, color, or color combinations, texture, [or] graphics.'" *Id. at 974 [1 USPQ2d at 2028] (quoting John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 [219 USPQ 515, 528] (11th Cir. 1983)). The design of a product may distinguish it from other products and thereby fall within the scope of trade dress protection. *Id.; LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 75 [225 USPQ 654, 656-657] (2d Cir. 1985).

In order to establish a claim of trade dress infringement under section 43(a), plaintiff must demonstrate that the trade dress has acquired secondary meaning in the marketplace and that there is a likelihood of confusion between its product and the competition's product. *Stormy Clime Ltd. v. ProGroup, Inc., supra,* 809 F.2d at 974 [1 USPQ2d at 2028]. Even if plaintiff makes such a showing, defendants can prevail if they carry their burden of proof to show the design arrangement is functional. *Id.*

1. *Secondary Meaning*

The design of a product has secondary meaning when the purchasing public associates that product design as coming from a particular producer or source. *E.g., LeSportsac, Inc. v. K Mart Corp., supra,* 754 F.2d at 78 [225 USPQ at 658-659]. The key elements courts have utilized in determining whether secondary meaning has been created are (1) attempts to imitate the design, (2) advertising expenditures, (3) sales success, (4) consumer studies linking the design to a source, (5) unsolicited media coverage of the product, and (6) length and exclusivity of the design's use. *See Centaur Communications Ltd. v. A/S/M/ Communications, Inc.,* 830 F.2d 1217, 1222 [4 USPQ2d 1541, 1544-1545] (2d Cir. 1987); *Thompson Medical Co. v. Pfizer Inc.,* 753 F.2d 208, 217 [225 USPQ 124, 131-132] (2d Cir. 1985). No single factor is determinative under this analysis nor must every element be proved in order for the plaintiff to establish secondary meaning. *LeSportsac, Inc. v. K Mart Corp., supra,* 754 F.2d at 78 [225 USPQ at 658-659]. It is only necessary to show that a substantial segment of the relevant group of consumers made the requisite association between product and producer. *Centaur Communications Ltd. v. A/S/M Communications, Inc., supra,* 830 F.2d at 1222 [4 USPQ2d at 1544-1545]. The Court has endeavored to examine all the evidence to determine if the facts support a finding that the consuming public has come to associate the trade dress of the product with plaintiff.

Attempts to Imitate the Design:

The Hot Shots were introduced to the retail shoe trade, and thereby to the rest of the athletic footwear industry, in the fall of 1987. Significantly, L.A. Gear actively communicated its intention to follow the practice it had adopted a year earlier of designating one shoe in its line as the "hero shoe" for the upcoming year, to which it would devote the majority of its advertising expenditures. For 1988, that shoe was the Hot Shots. Retailers were made aware of this advertising campaign in the fall of 1987 through advertisements in industry papers and shoe shows, and that information was widely disseminated throughout the industry.

Defendants designed their shoes in the winter and spring of 1988 after the Hot Shots advertising campaign had begun. Those involved with the development of these shoes testified they either knew of the success of the Hot Shots or were constantly shopping the shoe market to see what shoes were successful. The facts clearly indicate that defendants were well aware of the L.A. Gear advertising campaign to promote the Hot Shots.

There is no dispute that defendants sought to imitate the Hot Shots design when they developed their products. Defendants admit the Hot Shots were used as a model for their shoes and that they referred to their shoes as Hot Shots during the time they were developed. Both parties testified that there was an industry custom of making competitive versions of leading shoes, which was done by using the leading shoe as a model. All of defendants' witnesses who spoke on the topic indicated it was also the custom to differentiate the competitive version so that they would not appear confusingly similar to the model copied. The presence of plaintiff's planned advertising campaign and the visual similarity in the shoes leads the Court to conclude that defendants intended to copy the distinctive design of the Hot Shots in order to capitalize on the demand of this design L.A. Gear's advertising campaign

was likely to create. It is well settled that intentional copying provides strong support for a finding of secondary meaning. *E.g., RJR Foods, Inc. v. White Rock Corp.*, 603 F.2d 1058, 1060 [203 USPQ 401, 402-403] (2d Cir. 1979).

Advertising & Sales Success:

The Hot Shots, as the "hero" shoe for L.A. Gear in 1988, commanded the lion's share of the advertising budget of the company. In excess of five million dollars was expended on advertising associated with the Hot Shots during 1988, over seventy percent (70%) of L.A. Gear's advertising budget. The advertising took the form of television commercials on both commercial and cable television, billboards, print advertisements in magazines, and point of purchase advertisements in stores. All of the advertising was visual and clearly contained the Hot Shots.

In order for advertising to be a probative indication of secondary meaning, the advertising must feature the trade dress in some way. *See First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378, 1383 [1 USPQ2d 1779, 1782] (9th Cir. 1983). The Court's review of the evidence demonstrates that the advertising for the Hot Shots was "image advertising" that featured the design of the shoe. Despite the inclusion of models in the television advertisements, the trade dress of the shoe was evident. The trade dress was especially featured on billboards, in-store displays and magazine advertisements. The overall emphasis on the Hot Shots in L.A. Gear's advertising campaign makes it unlikely that the existence of some other advertisements from plaintiff that did not feature the Hot Shots diluted, in any significant manner, the effectiveness of the Hot Shots promotion.

Further buttressing the impact of the advertising on consumer identification of the design with L.A. Gear was the tremendous sales success of the product. L.A. Gear sold over four million pairs of Hot Shots in 1988, by far its best selling

shoe. The next best selling shoe for 1988, the Street Slammer, sold less than six hundred thousand (600,000) pairs. The sharp discrepancy in sales indicates a nexus between the advertising of the trade dress of the Hot Shots and consumer recognition of this design, not just the L.A. Gear brand name.

Consumer Studies

The only direct consumer study presented on secondary meaning was that of Norman Passman, President of Guideline Research Corp., an independent firm specializing in customized market research studies. "The trustworthiness of a survey depends upon a demonstration by its proponent that '(1) the universe was properly defined, (2) a representative sample of that universe was selected, (3) the questions to be asked of interviewees were framed in a clear, precise and non-leading manner, (4) sound interview procedures were followed by competent interviewers who had no knowledge of the litigation or the purpose for which the survey was conducted, (5) the data gathered was accurately reported, (6) the data gathered was analyzed in accordance with accepted statistical principles, and (7) objectivity of the entire process was assured.'" *Centaur Communications Ltd. v. A/S/M Communications, Inc.*, 652 F. Supp. 1105, 1110 [1 USPQ2d 1958, 1966], *aff'd* 830 F.2d 1217 [4 USPQ2d 1541] (2d Cir. 1987), (citing *Toys "R" Us v. Canarsie Kiddie Shop, Inc.*, 559 F. Supp. 1189, 1205 [217 USPQ 1137, 1149] (E.D.N.Y. 1983)).

The Passman study generally conformed to all of these accepted principles. The Court is cognizant of the limitations of the survey, including the inability to interview relevant customers in the actual stores where defendants' shoes were sold and the failure to account for guesses, which are not probative of actual consumer understanding. 25.8% of those surveyed identified the picture of the Hot Shot trade dress as an L.A. Gear Shoe. That percentage was 41.1% in new York, and 51.2% in Los Angeles, the two markets accounting for approximately twenty-five percent of L.A. Gear's sales.

Restricting the significance of this survey in showing secondary meaning is that 23.1% of the respondents identified the picture as a Reebok shoe. That percentage was 18.3% in New York and 20.8% in Los Angeles. Mr. Passman concluded that much of the misidentification of the shoe as Reebok could be attributed to its position as a market leader, as it commanded over twenty percent of the branded athletic shoe market in 1988. L.A. Gear, in comparison, had a market share of under five percent for 1988. The Court has no way of accurately assessing the degree to which the differing market shares influenced the responses to the survey and therefore does not afford the results of the survey great probative weight. However, the significant differences in the finding in the two largest markets for the Hot Shots and market share differential do indicate to the Court that some degree of consumer recognition of origin exists in the market.

Unsolicited Media Coverage:

Plaintiff did proffer a number of exhibits which tend to show the Hot Shots were subject to unsolicited media coverage, especially in the form of magazine articles relating to fashion or to competition in the athletic shoe industry. The amount of unsolicited media coverage does not appear to be substantial, but does further support a finding of secondary meaning.

Length and Exclusivity of Design's Use:

The length and exclusivity of the use of the design cuts against a finding of secondary meaning. The Hot Shots were introduced to the retail market in December, 1987. The extensive advertising campaign to promote the Hot Shots began promptly at the beginning of 1988. Defendants' first substantially similar shoes appeared in May, 1988 and others followed throughout the summer.

The relatively short time frame is not dispositive as a party is not "precluded as a matter of law from demonstrating that secondary meaning can be acquired within a few months." *Metro Kane Imports, Ltd. Federated Dept. Stores, Inc.*, 625 F. Supp. 313, 315 [228 USPQ 761, 762] (S.D.N.Y. 1985), *aff'd sub nom. without opinion, Metro Kane imports, Ltd. Rowoco, Inc.*, 800 F.2d 1128 (2d Cir. 1986). "Indeed in his day of modern communications it is frequently the case that a particular product or name becomes familiar to many customers overnight and the question of whether secondary meaning exists is dependent on a variety of factual questions and determinations." *Id.*

The overall facts of this case demonstrate that, despite the short time frame, a substantial segment of the relevant consuming public became aware of the association between the trade dress and L.A. Gear. The advertising campaign, while spread throughout the year, began immediately at the beginning of 1988. Two months after the first trade advertising, advertisements began to appear in the February editions of magazines, available to the public in January, 1988. Twelve to thirteen full page advertisements were placed prior to the late spring of 1988. The first television commercial for the Hot Shots, Photograph Her II, aired on commercial television during March, 1988. This commercial was run in thirty-five (35) different markets for a four week period at a frequency rate designed to have every household with a television set in these markets view the ad from three to nine times.

In February 1988, billboards appeared advertising the Hot Shots. In total, between $700,000-800,000 was spent on billboard advertisements alone. This included ten (10) large painted billboards at certain high visibility locations clearly featuring the Hot Shots design, as well as several hundred paper billboards, with a shorter life-span. Most of the painted billboards were erected by April, 1988.

The Court, looking at all the facts presented by the parties, finds that secondary meaning has been established by plaintiff. The Court's finding is further supported by the doctrine of secondary meaning in the making. Secondary meaning in the making allows a trade dress to be protected against intentional, deliberate attempts to capitalize on a distinctive product even though secondary meaning has not yet been fully developed in the market. *Jolly Good Industries, Inc. v. Elegra, Inc.*, 690 F. Supp. 227, 230 [9 USPQ2d 1534, 1536-1537] (S.D.N.Y. 1988); *Metro Kane Imports v. Federated Dept. Stores, supra*, 625 F. Supp. at 316 [228 USPQ at 762-763].

This doctrine, which has its roots in *National Lampoon, Inc. v. American Broadcasting Cos. Inc.*, 376 F. Supp. 733, 747 [182 USPQ 24, 33-34] (S.D.N.Y.), *aff'd* 497 F.2d 1343 [182 USPQ 6] (2d Cir. 1974), has never been expressly commented on by the Second Circuit nor relied upon as the sole basis for a finding of unfair competition under the Lanham Act, although a number of courts have indicated that it does present such an alternative. *Metro Kane Imports v. Federated Dept. Stores, supra*, 625 F. Supp. at 317 [228 USPQ at 763-764] (collecting cases); *Accord Jolly Good Industries, Inc. v. Elegra, Inc.*, 690 F. Supp. 277, 230 [9 USPQ at 1536-1537] (S.D.N.Y. 1988); *Elizabeth Taylor Cosmetics v. Annick Goutal*, 673 F. Supp. 1238, 1244 [5 USPQ2d 1305, 1309-1310] (S.D.N.Y. 1987); *Centaur Communications Ltd. v. A/S/M Communications, Inc., supra*, 652 F. Supp. at 1111, n.4 [1 USPQ2d at 1967, n.4].

The doctrine is somewhat contrary to the longstanding requirement that secondary meaning be shown prior to the invocation of federal trade dress protection and has been criticized by other courts on that basis. *See A.J. Canfield Co. v. Honickman*, 808 F.2d 291, 295 [1 USPQ2d 1364, 1367-1368] (3d Cir. 1986); *Black & Decker Mfg. Co. v. Ever-Ready Appliance Mfg. Co.*, 684 F.2d 546, 550 [215 USPQ 97, 100] (8th Cir. 1982). Nevertheless, the doctrine finds "support

from the analogous second comer doctrine, which states that '[a] senior user in possession of a distinctive mark has a right not to have the second comer intentionally cause a likelihood of confusion between the two marks in an attempt to exploit the reputation of the senior user's mark, since this would deprive the first user of control over its reputation and goodwill.'" *Metro Kane Imports, Ltd. v. Federated Dept. Stores, Inc., supra*, 625 F. Supp. at 317 [228 USPQ at 763-764] (quoting *Thompson Medical Co. v. Pfizer, Inc., supra*, 753 F.2d at 214 [225 USPQ at 129]). The intentional copying of the trade dress is persuasive evidence of consumer recognition and goodwill which the second comer seeks to exploit. *Jolly Good Industries, Inc. v. Elegra Inc., supra*, 690 F. Supp. at 231 [9 USPQ2d at 1537-1538].

The doctrine has been endorsed by both commentators and the case law, based on the equitable principle that defendants should not be entitled to benefit from their speedy efforts to appropriate the goodwill plaintiff was in the process of generating. *See* 3 R. Callman, *Unfair Competition, Trademarks and Monopolies*, § 19.27 at 91 (4th ed. 1984). In the present case, the evidence of intentional copying of plaintiff's distinctive design strongly supports the application of the secondary meaning in the making doctrine, especially in light of the industry-wide knowledge that plaintiff would be extensively promoting this design. The Court believes, based on the facts presented, that plaintiff has met its burden of proving secondary meaning.

2. *Likelihood of Confusion*

In order to show likelihood of confusion, plaintiff must demonstrate that a significant number of the relevant consumers of the product are likely to be misled, or simply confused, as to the source of the goods in question. *Centaur Communications Ltd. v. A/S/M Communications, Inc., supra*, 830 F.2d at 1225 [4 USPQ2d at 1547-1548]. Several factors which may be considered in determining likelihood of

confusion include: (1) the strength of the senior user's mark, (2) any showing of actual confusion, (3) the competitive proximity of the products, (4) the newcomer's purpose in adopting its mark, (5) the degree of similarity between the two marks, (6) the degree of similarity between the two products and (7) the degree of care likely to be exercised by the consumer. *See Polaroid Corp. v. Polaroid Elecs. Corp.*, 287 F.2d 492, 495 [128 USjPQ 441, 412-413] (2d Cir.), *cert. denied*, 368 U.S. 820 [131 USPQ 499] (1961); *P.F. Cosmetique, S.A. v. Minnetonka, Inc.*, 605 F. Supp. 662, 668 [226 USPQ 86, 89-90] (S.D.N.Y. 1985).

Most significantly, in the case of intentional copying, the second comer will be presumed to have intended to create a confusing similarity of appearance and will be presumed to have succeeded. *E.g., Perfect Fit Industries, Inc. v. Acme Quilting Co., supra*, 618 F.2d 950, 954 [205 USPQ 297, 301-302] (2d Cir. 1980). This presumption is not controlling if an examination of the marks reveals that there is no issue of likelihood of confusion. *Centaur Communications Ltd. v. A/S/M Communications, Inc., supra*, 830 F.2d at 1228 [4 USPQ2d at 1549-1550], but almost always when intentional copying is found, so is likelihood of confusion. *P.F. Cosmetique, S.A. v. Minnetonka, Inc., supra*, 605 F. Supp. at 670 [226 USPQ at 90-91]. It is clear from the facts that defendants intentionally copied the Hot Shots' distinctive trade dress and therefore likelihood of confusion can be presumed. Moreover, the evidence supports a finding of likelihood of confusion even without resort to any presumption based on intentional copying.

The distinctive trade dress of the Hot Shots, extensively promoted by plaintiff, has attained a degree of strength. While trade dress is inherently a relatively weak mark which requires a showing of secondary meaning to be protected, plaintiff has made such a showing here.

No evidence was presented that consumers have actually purchased defendants' shoes believing them to be the Hot Shots. However, two surveys, one introduced by plaintiff, the other by defendants, indicated that at least some consumers were confused when presented with the similar shoes. In fact, evidence of actual confusion was found in certain survey responses obtained as part of defendants' survey. A few respondents indicated they thought there was a relationship between defendants' shoes and L.A. Gear. While the Court does not place great weight on the overall results of either of these surveys, they indicate that at least some consumers were actually confused as to the source of the products and generally support a finding of likelihood of confusion.

The facts demonstrated that the Hot Shots and defendants' shoes are, to a degree, competitively proximate to each other. While defendants' shoes are generally sold only in Thom McAn or K Mart stores, where L.A. Gear shoes are not available, these stores do sell other nationally branded shoes. Furthermore, K Mart has sold L.A. Gear shoes at some time in the past. There was no evidence presented from which to conclude that consumers looking for the Hot Shots would know that it was unavailable at the stores where defendants' shoes were sold. Indeed, the absence of L.A. Gear from these stores may make confusion more likely, because the consumer will not be in a position to see the L.A. Gear shoe or conduct a side by side comparison when she is making a decision to purchase one of the challenged shoes.

In addition, the fact that there is a price differential between the shoes does not dispose of likelihood of confusion. Consumers may well believe that a relationship exists between plaintiff and defendants which entitled defendants to use plaintiff's design, thus creating confusion as to the source of the product. *See Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Company*, 799 F.2d 867, 874 [230 USPQ 831, 836-837] (2d Cir. 1986). In fact, as previously noted, a number of consumers thought just that. Such instances of confusion are

especially likely here where the names of defendants' shoes do not clearly indicate any specific source.

Moreover, the shoes are all athletic footwear of the same general type which are strikingly similar in appearance. The placement of all the major design elements is the same, creating the same distinctive overall look. The Court also notes that it was unable to discern any appreciable difference in quality from a visual examination of the shoes. While the shoes do contain names different than L.A. Gear, the placement of those names in the identical places on the shoe does not eliminate the likelihood of confusion, given the similarity of design. Defendants have an obligation to both name and dress their product to avoid any likelihood of confusion with the first comer in the market place. *E.g.*, *Harold F. Ritchie, Inc. v. Chesebrough-Pond's, Inc.*, 281 F.2d 755, 758 [126 USPQ 310, 312-313] (2d Cir. 1960). In addition, the labeling of the shoes does not address the potential for likelihood of confusion in the post-sale context, when consumers see defendants' shoes outside the retail store. Post-sale confusion is also likely in this case because of a similar placement and design of the labels. *See Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co., supra*, 799 F.2d at 872 [230 USPQ at 834-835]; *Le Sportsac, Inc. v. K Mart Corp., supra*, 754 F.2d 71 [225 USPQ 654]. Finally, there was little evidence produced to conclude that the buyers of girls' and women's athletic shoes are sophisticated and knowledgeable enough not to be confused by the similarity of the designs. The purchase of athletic footwear, including L.A. Gear shoes, does not involve a inordinate amount of time or money. Without additional information regarding the brand sophistication of consumers the Court cannot conclude that this factor significantly vitiates likelihood of confusion. Accordingly, the Court finds that the shoes are likely to cause consumer confusion.

3. Functionality

Purely functional features of a product are not susceptible to trade dress protection. *Le Sportsac, Inc. v. K Mart Corp., supra*, 754 F.2d at 76 [225 USPQ at 657-658]. A feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850 n.10 [214 USSPQ[sic] 1, 4 n.10] (1982). Courts must be wary not to undermine the protection of the patent laws by giving trading dress protection such a wide scope that it unduly reduces the number of functional products that could be introduced into the market. *Stormy Clime Ltd. v. Pro-Group, Inc., supra*, 809 F.2d at 977 [1 USPQ2d at 2030-2031].

As noted in the patent discussion, there is no dispute that the Hot Shots unique combination of different design elements each perform functional tasks. It is also clear that there are many other design possibilities available for other sellers to make a competing shoe. There is no functional need for the particular design combination employed in the Hot Shots in order to make a women's athletic shoe that is fashionable and contains color, and many competing shoes exist which do not have the same distinct design.

Defendants had argued in their pretrial submissions that the design was aesthetically functional and therefore not subject to trade dress protection, which can be more expansive than the protection afforded by the patent law. *See Stormy Clime Ltd. v. Pro-Group, Inc., supra*, 809 F.2d at 978 [1 USPQ2d at 2031-2032]. Aesthetic functionality makes trade dress protection inappropriate because it would unduly restrict competition in the market for the product. *See Pagleiro v. Wallace China Co.*, 198 F.2d 339 [95 USPQ 45] (9th Cir. 1952). In *Le Sportsac, Inc. v. K Mart Corp., supra*, 754 F.2d at 77-78 [225 USPQ at 657-659], the Second Circuit limited a prior Second Circuit case's expansive reading of aesthetic

functionality because any trade dress with secondary meaning would typically be an important ingredient in the ability to sell the product. The Second Circuit noted that to determine functionality, the district court would have to decide the following question: "Are consumers likely to purchase [plaintiff's product] rather than [a competitor's product] because they find [plaintiff's product's] particular combination of design features aesthetically pleasing, or will they buy principally because the product features identify or distinguish the goods as genuine [plaintiff] products." *Id.* at 78 [225 USPQ at 658-659].

The facts presented indicate that a number of shoe varieties compete with the Hot Shots design without employing the exact combination of trade dress elements which characterize defendants' shoes. Moreover, defendants have produced little evidence of consumer preference in the purchase of shoes and have not continued to argue this point to the Court. In the event defendants have not abandoned this argument, the Court finds they have not met their burden to prove that the design is functional.

The Court finds that defendants have infringed the trade dress rights of plaintiff in violation of the Lanham Act.

3.[sic] Enhancement of Damages

The Lanham Act authorizes the Court, in its discretion, to increase actual damages to a sum "not exceeding three times such amount." 15 U.S.C. § 1117. The Second Circuit, along with a number of others, has concluded that section 1117 applies to unfair competition claims under section 43(a) despite the express limitations in its language. *See Centaur Communications, Ltd. v. A/S/M Communications, Inc., supra,* 830 F.2d at 1229 [4 USPQ2d at 1550-1551] (and cases cited therein).

While the evidence of intentional copying is strong in this case, the Court does not believe the overall circumstances warrant an enhancement of damages. The Court is especially cognizant here of the limited length of plaintiff's exclusive use of the design.

Finally, the Court concludes that this is not an exceptional case which merits an award of attorney's fees.

C. Unfair Competition Under New York Law:

A finding of secondary meaning and likelihood of confusion also results in a violation of unfair trade dress infringement based on New York law. However, proof of secondary meaning is not necessary under New York law in order to obtain relief from an infringing trade dress. *Perfect Fit Industries, Inc. v. Acme Quilting Co., supra,* 618 F.2d at 952 [205 USPQ at 299-300]. Because the possible varieties of packaging are virtually endless, New York law in the trade dress area has concerned itself principally with whether or not the public is likely to be confused, rather than with secondary meaning, *Id.* "The essence of an unfair competition claim under New York law is that the defendant misappropriated the labors and expenditures of another. Central to this notion is some element of bad faith." *Saratoga Vichy Spring Co. v. Lehman,* 625 F.2d 1037, 1044 [208 USPQ 175, 180-181] (2d

Cir. 1980). In order to succeed on this cause of action, plaintiff must establish that its nonfunctional trade dress is distinctive and that there is a likelihood of confusion. *Jolly Good Industries, Inc. v. Elegra, Inc., supra,* 690 F. Supp. at 233 [9 USPQ2d at 1539]. Even if no secondary meaning had been established, plaintiff's distinctive and memorable design would support finding an infringement of New York's unfair competition law.

D. Anti-Dilution -- Section 368(d), New York General Business Law

This claim is mooted by the Court's previous findings.

CONCLUSION

The Court holds that defendants Thom McAn and Melville have infringed the design patent held by plaintiff on the upper of the Hot Shots shoe. The Court also holds that defendants' acts of unfair competition have violated the Lanham Act and New York state law. Accordingly, plaintiff is entitled to a permanent injunction as well as damages. As was agreed by all parties, the measure and amount of damages will be reserved for further briefing.

The foregoing represents the Court's findings of fact and conclusions of law pursuant to Rule 52, Fed.R.Civ.P.

Order Signed.

United States District Court for the Southern District of New York

L.A. GEAR, INC., Plaintiff,

v.

THOM McAN SHOE COMPANY, MELVILLE CORPORATION, PAGODA TRADING COMPANY, INC. and SAN SHOE CORP., Defendants.

MELVILLE CORPORATION, Counterclaim Plaintiff,

v.

L.A. GEAR, INC., Counterclaim Defendant,

Civil Action No. 88 Civ. 6444 (RJW)

April 19, 1989,
Decided and Filed

ORDER

Robert J. Ward, United States District Judge

The Court, after having considered the pleadings, the parties' pretrial and post trial submission and, all of the testimony and evidence received at trial, having dismissed with prejudice all counts asserted against defendants San Shoe Corporation and having issued its oral opinion on April 12, 1989 finding that:

1.

U.S. Patent No. Des. 299,081 ("081 patent"), issued on December 27, 1988 to Robert Y. Greenberg, et al. and assigned to L.A. Gear, Inc. ("L.A. Gear"), is valid and enforceable;

2.

The design of the uppers of the BALLOONS shoe style no. 78191, the AEROBIX shoe style no. 78505, AEROBIX shoe style no. 76878 and AEROBIX shoe style no. 71878 infringe the '081 patent;

3.

L.A. Gear is entitled to a judgment in its favor against defendants Thom McAn Shoe Company ("Thom McAn") and Melville Corporation ("Melville") for design patent infringement;

4.

The design of the upper of the L.A. Gear Hot Shots model shoe, both high top and low top, is distinctive and has achieved secondary meaning and is therefore entitled to trade dress protection under 15 U.S.C § 1125a and protection under the New York state law of unfair competition;

5.

The BALLOONS shoe style no. 78191, AEROBIX shoe style no. 78505, AEROBIX shoe style no. 71878, AEROBIX shoe style no. 76878, AEROBIX shoe style no. 79404 and MACGREGOR shoe style no. 16816 (collectively "the Infringing Shoes") are likely to cause consumer confusion; and

6.

L.A. Gear is entitled to a judgment in its favor against Thom McAn, Melville and Pagoda Trading Company ("Pagoda") (hereinafter the "defendants") for trade dress infringement under Section 43a of the Lanham Act, 15 U.S.C. § 1125a, and unfair competition under New York state law; it is hereby ORDERED, ADJUDGED and DECREED as follows:

1.

Defendants, their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with them, are hereby permanently enjoined and restrained from the unauthorized making, using or selling of any of the following:

a.

The Infringing Shoes as described in paragraph 5 above; and

b.

Any colorable imitations of the Infringing Shoes.

2.

Defendants Tom McAn and Melville are enjoined from the sale or transfer of all of the Infringing Shoes or any colorable imitations in their care, custody or control pending further order of the Court;

3.

L.A. Gear shall received damages in connection with the purchase and sale of each of the Infringing Shoes from each

of the defendants as a result of defendants' design patent infringement, trade dress infringement and acts of unfair competition;

4.

Each defendant shall provide to counsel for L.A. Gear prior to April 26, 1989, all accounting and business records from which the total profit earned in connection with each of the Infringing Shoes can be calculated;

5.

Defendant Melville's counterclaims asserted in its Answer dated March 13, 1989 be, and the same hereby are, dismissed with prejudice; and

6.

L.A. Gear, Inc. shall be awarded its costs; and

7.

The defendants shall make supplementary submissions to the Court on or before April 26, 1989 and plaintiff shall do likewise on or before May 10, 1989 with regard to the amount and measure of damages.

Dated: New York, New York, April 19, 1989.

United States District Court for the Southern District of New York

L.A. GEAR, INC., Plaintiff,

v.

THOM McAN SHOE COMPANY; MELVILLE CORPORATION; PAGODA TRADING COMPANY, INC. and SAN SHOE CORPORATION, Defendants.

Civil Action No. 88 Civ. 6444 (RJW)

1989 U.S. Dist. LEXIS 8439

July 25, 1989,
Decided

MEMORANDUM and ORDER

Robert J. Ward, United States District Judge

The Court, in its Memorandum Decision, dated April 19, 1989 ("Memorandum Decision"), found that defendants Thom McAn Shoe Company ("Thom McAn"), Melville Corporation ("Melville"), and Pagoda Trading Company, Inc. ("Pagoda")[8] violated Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and the New York law of unfair competition, and the defendants Melville and Thom McAn infringed plaintiff's design patent in violation of 35 U.S.C. § 271.[9] Plaintiff, L.A. Gear, Inc. ("L.A. Gear") was

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8 Plaintiff has withdrawn, with prejudice, all claims against defendant San Shoe Corporation.

9 Familiarity with the Court's April 19, 1989 Memorandum Decision is presumed.

awarded a permanent injunction and damages. The measure and amount of damages was reserved for further briefing. For the reasons that follow, plaintiff is entitled to an accounting of defendants' profits, such profits to be determined on a net-cost basis.

A.

Plaintiff's Entitlement to Monetary Relief

Defendants, in their post-trial submissions, argue that no monetary award may be asserted against them on the unfair competition claims. Section 35 of the Lanham Act, 15 U.S.C. § 1117, provides that a successful plaintiff is entitled, "subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." 15 U.S.C. § 1117. Plaintiff seeks an accounting of defendants' profits from the sale of the infringing shoes.

Defendants' correctly assert that a successful plaintiff under section 43(a) of the Lanham Act is not necessarily entitled to monetary, in addition to injunctive, relief. *See Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686, 706-707 (2d Cir. 1970) (in order to recover a monetary award it is ordinarily necessary to show not only that the infringer infringed, but that he did so with the deliberate intent to cause confusion, mistake or to deceive purchasers). Specifically, "[a]n accounting should be granted if the defendant is unjustly enriched, if the plaintiff sustained damages from the infringement, or if an accounting is necessary to deter a willful infringer from doing so again." *W.E. Bassett Co. v. Revlon Inc.*, 435 F.2d 656, 664 (2d Cir. 1970) (accounting granted based on finding of willful infringement of plaintiff's trademark). Where there is a finding of deliberate and willful infringement, an accounting of the infringer's profits is appropriate. *See PAF S.r.l. v. Lisa Lighting Co.*, No. 88 Civ. 6006 (BN) slip op. at 48 (May 3, 1989). Such is the case here.

Plaintiff and defendants expend a good deal of energy arguing over whether the Court found the infringement of plaintiff's trade dress rights to be willful or in bad faith. Due to the various discrepancies in the patent application process caused by plaintiff's actions and the actions of its employees, and given the context of the ongoing litigation during which the patent was ultimately issued, the Court concluded that Thom McAn's and Melville's belief that the patent was invalid was not held in bad faith. Memorandum Decision at 21-22. This finding regarding their belief as to the validity of the patent does not equate with a finding that defendants acted in good faith in copying plaintiff's shoes for purposes of the unfair competition claims. To the contrary, the Court expressly found that defendants intended to capitalize on the good will plaintiff created through its advertising campaign by designing their shoes to be exact copies of plaintiff's shoes. Memorandum Decision at 25.

Defendants justify their copying of plaintiff's unique shoe design by arguing that "everyone does it" in the shoe industry. *See Defendants' Post-trial Memorandum of Law, filed April 28, 1989 at 14-15.* However, the evidence presented indicated, and the Court concluded, that while competitive versions of popular shoes are often made, exact duplicating of shoes is neither sanctioned by others in the industry, nor by the laws relating to unfair competition. Memorandum Decision at 8.

The specific facts of this case, including the evidence that (1) plaintiff widely publicized its intention to mount a massive advertising campaign on behalf of the infringed shoe, (2) the design of the infringed shoe was unique and served as an indicator of source of origin, (3) the design of defendants' infringing shoes was, for the most part, an exact replica of plaintiff's design, and (4) there was a striking similarity in the color, placement and style among the labels of plaintiff's shoes and those of defendants, resulted in the Court's finding that defendants had intentionally crossed the line between

permissible business practices and unfair competition. Implicit in the Court's decision was the finding that defendants will fully copied plaintiff's design with the intent to confuse consumers. These actions were deliberate and are sufficient to entitle plaintiff to an accounting.

Plaintiff, in its post-trial submissions, argues that the Court should reconsider its conclusion that an enhanced damage award was not warranted for both the unfair competition and patent violations. Section 1117 provides that "[i]n assessing damages, the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. . . . The Court in exceptional cases may award reasonable attorney fees to the prevailing party." Similarly, the Court is authorized under the patent statutes to "increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. Plaintiff's request for an enhancement of damages, however, overlooks the mitigating factors present in this case, including the industry custom of making competitive versions of popular shoes and the relatively short time frame within which secondary meaning was established for plaintiff's trade dress. The Court readily acknowledges the complexities involved in the issues litigated by the parties and the subtleties inherent in drawing a line between those shoes that infringe, and those that do not infringe, plaintiff's design. The widespread industry knowledge of plaintiff's advertising campaign and the sales success of plaintiff's shoes, the virtual reproduction of plaintiff's distinctive design by defendants and the similarities in labeling resulted in a finding of willful infringement, but, in the Court's view, are insufficient to merit an enhanced award to plaintiff given the totality of the circumstances of this case [10]

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10 As plaintiff points out, it is axiomatic that a Court may find a plaintiff is entitled to an accounting without finding that an

Footnote continued on next page

B.

Measure of Damages

The parties dispute whether a gross or net profit measure is to be used to determine plaintiff's recovery. In *Murphy Door Bed Co. Inc. v. Interior Sleep Systems, Inc.*, Nos. 88-7877,-9043, slip op. at 3069 (2d Cir. May 1, 1989), the Second Circuit explained that compensatory damages in an unfair competition case should be computed on a net profit, rather than a gross profit, basis. *See also W.E. Bassett Co. v. Revlon Inc., supra*, 435 F.2d at 665 (2d Cir. 1970). Costs necessary to generate the income from defendants' sale of the infringing shoes should be deducted from sales revenue in order to determine plaintiff's recovery. *See Murphy Door Bed Co., Inc. v. Interior Sleep Systems, Inc., supra*, at 3069.

Plaintiff is entitled to an accounting of defendants' net profits for all the infringing shoes. The parties are directed to confer to attempt to reach an agreement on the amounts in issue, or to determine the need for the appointment of a special master to supervise the accounting, and submit a stipulation or status letter to the Court by August 21, 1989.

It is so ordered.

Dated: New York, New York
July 25, 1989

Footnote continued from previous page

enhanced recovery is also required. Any other rule would result in the anomalous situation where a plaintiff would be entitled either to no recovery, or to enhanced damages, but never single damages.

United States District Court for the Southern District of New York

L.A. GEAR, INC., Plaintiff,

v.

THOM McAN SHOE COMPANY; Melville CORPORATION, PAGODA TRADING COMPANY, INC. AND SAN SHOE CORPORATION, Defendants.

Civil Action No. 88 Civ. 6444 (RJW)

August 8, 1990,
Decided

August 9, 1990,
Filed

Robert J. Ward, United States District Judge.

MEMORANDUM

The Court, in its Memorandum Decision dated April 19, 1989 ("Memorandum Decision"), found that defendants Tom McAn Shoe Company ("Thom McAn"), Melville Corporation ("Melville"), and Pagoda Trading Company, Inc. ("Pagoda") [11] violated Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and the New York law of unfair competition, and that defendants Melville and Thom McAn infringed plaintiff's design patent in violation of 35 U.S.C. § 271. Plaintiff, L.A. Gear, Inc. ("L.A. Gear") was awarded a permanent injunction and damages. The measure and amount

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11 Plaintiff has withdrawn with prejudice all claims against defendant San Shoe Corporation.

of damages was reserved for further briefing. By Memorandum and Order, dated July 25, 1989, the Court awarded plaintiff an accounting of defendants' profits, such profits to be determined on a net-cost basis.[12]

The License Fee Payment to K mart

L.A. Gear maintains that the payments made by Melville to K mart pursuant to a License Agreement, annexed as Exhibit A to L.A. Gear's Memorandum of Law, supra (the "License Agreement"), which concern the infringing shoes should not be deducted by Melville in calculating its net profits. Instead, plaintiff asserts these deductions are an improper attempt by Melville to achieve a net gain from its infringing activity. The Court disagrees.

The License Agreement allows Meldisco, a division of Melville, to operate the shoe department in K mart stores. In return, K mart is paid fees in three separate ways. First, Melville pays K mart a fixed percentage of its gross sales, subject to a minimum annual fee per square foot of Meldisco's selling space. License Agreement at para. 3(A). Second, Melville pays K mart an excess fee based on profits that it achieves above a certain percentage of gross sales. License Agreement at para. 3(b). Finally, Melville pays K Mart a miscellaneous fee to defray the costs of overhead which is based upon the relative size of the space that a particular K mart store has allocated to the Meldisco footwear department.

The payments at issue represent costs to Melville associated with the sale of shoes through K mart stores. Accordingly, it is proper for Melville to deduct the proportion of these costs attributable to the sales of the infringing shoes.

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12 Familiarity with the Court's April 19, 1989 Memorandum Decision and July 25, 1989 Memorandum and Order is presumed.

See Murphy Door Bed Co., Inc. v. Interior Sleep Systems, Inc., 874 F.2d 95, 103 (2d Cir. 1989) (costs necessary to generate the income from defendants' sale of the infringing items should be deducted from sales revenue in order to determine plaintiff's recovery). *Accord W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 665 (2d Cir. 1970); *Warner Brothers, Inc. v. Gay Toys, Inc.*, 598 F. Supp. 424, 428-29 (S.D.N.Y. 1984).

K mart's role in the sale of the infringing shoes

In addition to challenging the propriety of the deduction taken by Melville, L.A. Gear implies that it should be allowed to recover directly any profits K mart made from the sale of the infringing shoes.

After plaintiff filed suit against defendants, it requested that K mart intercede in the dispute and prohibit Melville from selling the infringing shoes at K mart stores. K mart refused, indicating that plaintiff's action against Melville would be effective regarding shoes sold in K mart stores. L.A. Gear did not choose to join K mart as a defendant, but nevertheless argues that it would be inequitable to allow K mart to keep those payments made by Melville which can be attributed to sales from the infringing shoes. In support of this position, L.A. Gear highlights the indemnification clause in the License Agreement which provides that Melville will fully indemnify K mart and "pay any resulting judgments arising out of suits or claims involving the sale or the offering for sale of [Melville's] merchandise for infringement or alleged infringement of any patent, trademark (except "K mart"), copyright or claim of unfair competition. . . . " License Agreement at para. 15.

L.A. Gear's argument is unpersuasive. Melville, the defendant at issue, made payments to K mart pursuant to the License Agreement. Despite L.A.Gear's innuendoes that these payments are somehow being used by Melville to surreptitiously achieve a profit on the sale of the infringing shoes, there is nothing in the record to indicate that the

payments were anything but legitimate expenses which Melville was contractually bound to pay under the terms of the License Agreement, irrespective of this lawsuit.

Furthermore, the indemnification provision cited by plaintiff is inapplicable to the calculation of Melville's net profits from the infringing shoes because K mart is not a defendant in this action, and has not been found to have willfully infringed plaintiff's rights. Indeed, there is no indication that K mart had any role in, or responsibility for, the development, design, or sale of the infringing shoes, such that it could be characterized as a willful infringer.

Accordingly, the Court concludes that the deduction taken by Melville regarding the aforementioned payments to K mart is proper. Furthermore, L.A. Gear is not entitled to K mart's profits derived from Melville's sales of the infringing shoes.

Settle judgment on notice.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

L.A. GEAR, INC., Plaintiff,	:	
v.	:	CIVIL ACTION NO. 88 Civ. 6444 (RJW)
THOM McAN SHOE COMPANY, MELVILLE CORPORATION, PAGODA TRADING COMPANY, INC. AND SAN SHOE CORP., Defendants.	:	JUDGMENT
MELVILLE CORPORATION, Counterclaim Plaintiff,	:	
v.	:	
L.A. GEAR, INC., Counterclaim Defendant.	:	

The Court, after having considered the pleadings, the parties' pretrial and post trial submissions, and all of the testimony and evidence received at trial, having dismissed with prejudice all counts asserted against defendant San Shoe Corporation, having issued its oral opinion on

April 12, 1989 and having issued its Order on April 19, 1990; it is hereby

ORDERED, ADJUDGED and DECREED as follows:

1. U.S. Patent No. Des. 299,081 ("the '081 patent"), issued on December 27, 1988 to Robert Y. Greenberg, et al. and assigned to L.A. Gear, Inc. ("L.A. Gear"), is valid and enforceable;

2. The design of the uppers of the BALLOONS shoe style no. 78191, the AEROBIX shoe style no. 78505, AEROBIX shoe style no. 76878 and AEROBIX shoe style no. 71878 infringe the '081 patent.

3. Defendants Thom McAn Shoe Company ("Thom McAn") and Melville Corporation ("Melville") are liable to L.A. Gear for design patent infringement;

4. Melville's counterclaim asserted in its Answer dated March 13, 1989 are dismissed with prejudice;

5. The design of the upper of the L.A. Gear Hot Shots model shoe, both high top and low top, is distinctive and has achieved secondary meaning and is therefore entitled to trade dress protection under 15 U.S.C. § 1125a and under the New York state law of unfair competition;

6. The BALLOONS shoe style no. 78191, AEROBIX shoe style no. 78505, AEROBIX shoe style no. 71878, AEROBIX SHOE STYLE NO. 76878, AEROBIX shoe style no. 79404, MACGREGOR shoe style no. 16816, JUST KIDDING shoe style no. 76571 and JUST KIDDING shoe style no. 71571 (collectively "the Infringing Shoes") are likely to cause consumer confusion;

7. Thom McAn, Melville and Pagoda Trading Company, Inc. ("Pagoda") (collectively "the defendants") are liable to L.A. Gear for trade dress infringement under Section 43a of the Lanham Act, 15 U.S.C. § 1125a, and unfair competition under New York state law;

8. Defendants, their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with them, are hereby permanently enjoined and restrained from the unauthorized making, using or selling of the Infringing Shoes or any colorable imitations of the Infringing Shoes;

9. Thom McAn and Melville are enjoined from the sale or transfer of all of the Infringing Shoes or any colorable imitations of the Infringing Shoes in their care, custody or control;

10. L.A. Gear shall recover as damages from Thom McAn and Melville profits made prior to December 17, 1988 for trade dress infringement and unfair competition and profits made subsequent to December 27, 1988 for design patent infringement, trade dress infringement and unfair competition in the total amount of $985,640.63, consisting of $876,125 in damages and $109,515.63 in prejudgment interest, plus costs; and

11. L.A. Gear shall recover as damages from Pagoda profits made for trade dress infringement and unfair competition in the total amount of $112,464.60, consisting of $99,968.53 in damages and $12,496.07 in prejudgment interest, plus costs.

Dated: New York, New York
September 5th, 1990

/s/ Robert J. Ward
United States District Judge

United States Court of Appeals for the Federal Circuit

89-1488,-1497 and 91-1104,-1105

L.A. GEAR, INC.,

Plaintiff/Cross Appellant,

v.

THOM McAN SHOE COMPANY and
MELVILLE CORPORATION

and

PAGODA TRADING COMPANY, INC.,

Defendants-Appellants.

ORDER

United States Court of Appeals for the Federal Circuit

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the CROSS-APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED, and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is DECLINED.

FOR THE COURT,
FRANCIS X. GINDHART, CLERK

Dated: April 13, 1993

By /s/ Diane M. Frye
Diane M. Frye
Chief Deputy Clerk

cc: JOSEPH D. GARON, WILLIAM M. BORCHARD
IRA S. SACKS

LA GEAR V THOM MCAN, 89-1488
(DCT - 88-6444)

Note: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

United States Court of Appeals for the Federal Circuit

89-1488,-1497 and 91-1104,-1105

LA. GEAR, INC.,

Plaintiff/Cross Appellant,

v.

THOM MCAN SHOE COMPANY and MELVILLE CORPORATION

and

PAGODA TRADING COMPANY, INC.,

Defendants-Appellants.

ORDER

United States Court of Appeals for the Federal Circuit

ORDER

Before NEWMAN, Circuit Judge, MAYER, Circuit Judge, and PLAGER, Circuit Judge.

A petition for rehearing having been filed by the APPELLANTS, and a response thereto having been invited by the court and filed by the

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

FOR THE COURT,
FRANCIS X. GINDHART, CLERK

Dated: April 13, 1993

By /s/ Diane M. Frye
Diane M. Frye
Chief Deputy Clerk

cc: JOSEPH D. GARON, WILLIAM M. BORCHARD
IRA S. SACKS

LA GEAR V THOM MCAN, 89-1488(DCT - 88-6444)

Note: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

LANHAM ACT, SECTION 43(a), 15 U.S.C. § 1125(a)

§ 1125 False designations of origin and false descriptions forbidden

(a)(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which —

> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

FEDERAL RULE OF CIVIL PROCEDURE 52(a)

(a) **Effect.** In all actions tried upon the facts without a jury or with an advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon, and judgment shall be entered pursuant to Rule 58; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its action. Requests for findings are not necessary for purposes of review. Findings of fact, whether based on oral or documentary evidence, shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses. The findings of a master, to the extent that the court adopts them, shall be considered as the findings of the court. It will be sufficient if the findings of fact and conclusions of law are stated orally and recorded in open court following the close of the evidence or appear in an opinion or memorandum of decision filed by the court. Findings of fact and conclusions of law are unnecessary on decisions of motions under Rule 12 or 56 or any other motion except as provided in subdivision (c) of this rule.